FINANCIAL TIMES

Start the week with...

Asia's economies
Strains start to show
Peter Montagnon, Page 17

Lucy Kellaway
Coping with the big let-down
Management, Page 10

Sport
Send on the funny guys
Simon Kuper, Page 12

World Business Newspaper http://www.FT.com MONDAY AUGUST 12 1996

'Leak' of diamonds threatens Russia's deal with De Beers

An increase in the value of rough diamonds leaking to the market from Russia is threatening the country's relationship with the diamond cartel it organises with De Beers of South Africa. Diamond International estimates the value of diamonds leaking out of Russia has jumped from between $10m and $15m in March and April to $40m-$60m in June. Page 18

British Petroleum wants to speed up the $5bn planned merger of much of its European assets with the US's Mobil, in a move that will rekindle speculation about whether the two will merge completely. Page 19; Lex, Page 18

Britain backs Lloyd's plan: The British government backed a recovery plan by the Lloyd's of London insurance market, by intervening in a US court case brought by rebel Names – individuals whose assets have traditionally supported the market. Page 6

N Ireland marches end peacefully: A weekend of parades in Northern Ireland ended peacefully, in spite of fears it would be hit by the violence that has accompanied much of the summer marches by loyalists and republicans. Page 6

Canadian interest rates lowered: The Bank of Canada showed its independence from the US Federal Reserve by lowering interest rates for the fifth time this year without waiting for a lead from Washington. Page 4

Argentina austerity warning: Argentina's President Carlos Menem warned the country to prepare for austerity measures, saying sacrifices would be demanded from all sectors of society. Page 4

Oil price firm after US move: Oil industry analysts said market fears that US approval of the United Nations' oil-for-food plan for Iraq would trigger a price collapse have proved over-pessimistic – but they warned the current oil price will be tested when supplies from Iraq begin to flow. Page 5

Riots follow South African rally: South African troops and police fired rubber bullets and tear gas as violence flared in Cape Town following Moslem-led demonstrations against the country's worsening crime rate. Page 5

Tokyo appeals against WTO ruling: Tokyo appealed against a World Trade Organisation ruling that Japan's liquor tax is in breach of WTO rules. Japan imposes higher tariffs on imports than on domestically produced liquor. Page 3

Man dies in Cyprus riot: A Greek Cypriot man was killed and 50 other people, including five Turkish Cypriot policemen, were reported to have been wounded after fighting broke out between Greek Cypriot motorcycle gangs and Turkish Cypriots in a strip of no-man's land that has divided Cyprus since 1974. Page 2

China woos HK democrats: China signalled a softer line towards Hong Kong democrats in an attempt to secure co-operation over next year's transfer of sovereignty, according to members of the Beijing-appointed committee overseeing the handover. Page 3

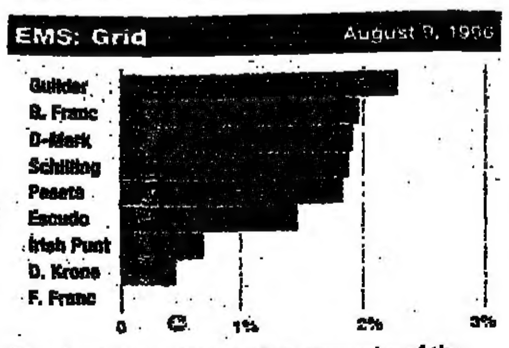
Arafat attacks Israel decision: Palestinian President Yassir Arafat attacked the new Israeli government's decision to lift the four-year freeze on Jewish settlements in occupied Arab land. Page 5

Cricket: Rain forced play to be abandoned in the second Test between England and Pakistan at Headingley, Leeds. England were all out for 501, a first innings lead of 53, with Pakistan unable to start their second innings.

Motor racing: Canadian Jacques Villeneuve won the Hungarian grand prix in Budapest ahead of his Williams Renault team-mate and championship leader Damon Hill of Britain. France's Jean Alesi, driving a Benetton, was third.

European Monetary System: The French franc slipped to the bottom of the EMS grid last week amid renewed speculation about whether Paris would meet the Maastricht convergence criteria. The Irish punt climbed two places. With the D-Mark stronger, the spread between strongest and weakest currencies widened slightly. Currencies, Page 25

EMS: Grid August 9, 1996



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

FT.com: the FT web site provides online news, comment and analysis at http://www.FT.com

Yeltsin orders Russian forces in the region to be strengthened

Lebed seeks Chechen talks

By John Thornhill in Moscow

Mr Alexander Lebed, Russia's national security chief, last night travelled to the north Caucasus in an attempt to stem the surge of fighting in Chechnya, which has killed hundreds of combatants and civilians and created thousands of refugees.

Just two days after his inauguration, *Mr Boris Yeltsin, the* Russian president, yesterday chaired a 2¼ hour emergency meeting in the Kremlin about the Chechnya crisis, ordering federal forces to be strengthened in the region.

He had earlier instructed Mr Lebed to take personal command on the ground and demanded a criminal investigation into why Russian forces were caught off-guard by the separatists' assault last week on Grozny, capital of the breakaway region.

Flags flew at half-mast in Moscow over the weekend and tempers flared in parliament as Russian officials reported that as many as 200 federal *troops had been killed in the* latest fighting.

Unconfirmed Chechen reports suggested that a further 150 Russian troops had been killed in a separate ambush, but the Russian military denied the claim.

Russian news agencies reported fresh exchanges of gunfire last night as federal forces persisted in trying to oust the thousands of Chechen rebels who had infiltrated Grozny. Local Russian commanders said they had lifted the Chechen stranglehold on the centre of the rubble-strewn capital, a claim challenged by rebel fighters.

Mr Lebed, who contested the *presidential elections before* entering the Kremlin as secretary of the security council, has fiercely criticised Russian policy towards Chechnya in the past and even backed calls to grant it independence.

His latest mission will be the biggest test to date of his political skills and may either destroy his reputation or bolster his ambitions of succeeding Mr Yeltsin.

After reaching the neighbouring region of Dagestan last night, Mr Lebed was reported to be seeking talks with senior Chechen representatives amid indications that rebel leaders might respond to a serious peace initiative.

*Mr Movladi Udugov, a Che*chen spokesman, told Russian radio: "If General Lebed fulfils his electoral promises, then we can only welcome that. We will do all we can so Russian state interests are preserved in the Caucasus, and Chechnya and Russia get out of this war while saving face." Mr Victor Chernomyrdin, who was confirmed as prime minister by parliament on Saturday, said the government would pursue peace talks to end the 20-month conflict once the military situation had been settled.

"Lebed is a military man, he is used to tackling these sorts of problems," Mr Chernomyrdin said. "I am sure he will *cope with this task. He simply* must." Mr Chernomyrdin said "radical measures" would be taken although he has previously ruled out the possibility that Russia would cede independence to Chechnya.

Battle for high ground, Page 2

Dole applauded for selecting Kemp

By Jurek Martin in San Diego

The new Republican presidential ticket headed to San Diego yesterday to claim the crown, with convention delegates and pundits expressing broad approval of Mr Bob Dole's bold, if risky, choice of longstanding rival Mr Jack Kemp as his running-mate.

The selection of Mr Kemp *has energised the 36th Republi*can nominating convention and at least temporarily pushed to the sidelines some of the bitter party fights on social policy issues which have contributed to Mr Dole's substantial deficit in the polls behind President Bill Clinton.

Mr Haley Barbour, the Republican national chairman, denied that the more charismatic and eloquent Mr Kemp, a former football player, New York congressman and housing secretary in the last Republican administration, would upstage the presidential nominee in the election campaign, as the Clinton White House had suggested.

Mr Barbour said "diversity is a sign of strength". Mr Dole, in a newspaper interview, conceded that Mr Kemp was "a free spirit in some regards", and added "we both have to stay on our message".

Mr Dole, who will give his acceptance speech on Thursday night, had some rare good polling news yesterday. A Washington Post survey saw Mr Clinton's lead cut to 10 points, at 50 per cent, from 15 points last month.

The survey was taken after Mr Dole unveiled his tax-cutting economic blueprint but before Mr Kemp, an ardent supply-sider, emerged as the probable running-mate late last week. Most other polls have given Mr Clinton a lead in the 20 point-plus range, *although private Republican* polling puts it much lower. The Dole campaign hopes a successful convention can narrow the gap to single digits and that it will not expand again after the Democratic convention in two weeks.

The only Republican dissent over the ticket came from Governor Pete Wilson of California, who said Mr Kemp's views opposing further controls on immigration and in favour of affirmative action for minorities put him out of step with the party.

Mr Wilson, along with two other prominent Republican governors, Mr William Weld of Massachusetts and Mr George Pataki of New York, have refused to accept their assigned speaking roles at the convention, mostly because they were told they could not register on the floor their disagreement with the party platform's demand that abortion be outlawed.

Mr Clinton, on holiday in Wyoming, said he was surprised by the choice of Mr Kemp but otherwise had no *specific comment.* Ms Ann Lewis, one of Mr Clinton's campaign officials, said some of Mr Kemp's ideas, including a return to the gold standard, were "rather extreme".

Bob Dole (right), with presidential running-mate Jack Kemp during a rally at Dole's home town of Russell, Kansas, hopes a successful Republican convention in San Diego this week will cut President Bill Clinton's healthy opinion poll lead Picture: AP

Kemp rescues convention, Page 4; Dateline, Page 8; Victory either way, Page 16 Editorial Comment, Page 17

Turkey set to defy US with $20bn Iranian gas deal

By John Barham in Ankara

Mr Necmettin Erbakan, Turkey's Islamist prime minister, yesterday held talks with Iranian leaders in Tehran and was expected to *sign an agreement to import* $20bn-worth of natural gas from Iran.

The agreement is in defiance of US legislation passed last week which punishes companies investing in the oil or gas industries of Libya and Iran.

Turkey said its deal would not be affected by US sanctions because it would construct a gas pipeline on its own soil.

Mr Erbakan, greeted with full honours of state when he arrived in Tehran on Saturday, further irked the US with announcements that he would also seek to improve relations with Syria and Iraq. He promised after taking office in July that he would strengthen ties with the Moslem world, as well as preserving Turkey's traditionally pro-western foreign policy.

"Turkey will not permit any third country to interfere in *the growing trend of co-opera*tion between Turkey and Iran," Iranian television quoted him saying yesterday.

He also told the Turkish newspaper Hürriyet that "naturally we should co-operate with Iraq in relation to northern Iraq." The UN wrested control of Iraq's northern Kurdish provinces after the 1991 Gulf war, but Turkey claims the area has become a haven for guerrillas of the *Kurdistan* Workers party (PKK), which has waged a 12-year separatist war in southern Turkey.

Mr Erbakan said Syria, Iran, Iraq and Turkey should work together to settle the Kurdish issue. All four countries have Kurdish populations. The prime minister also said he was despatching his foreign policy adviser, Mr Abdullah Gül, to Damascus with a "positive" message for President *Hafez Assad.*

Mr Gül said that Turkey's

Continued on Page 18

Rise of Internet threatens traditional banks' market

By George Graham in London

The market for Internet banking is poised to grow sharply in the next three years, affecting the competitive advantage enjoyed by traditional banks as demand for Internet banking services takes off.

A survey of Internet banking by Booz-Allen & Hamilton, international management consultants, has found that 154 European banks already have sites on the World Wide Web, with sites increasing at a rate of nearly 90 per cent a year.

But use of the sites is growing faster, and almost all the banks that have an Internet presence plan to upgrade both the size and capacity of their sites and the level of services they offer.

The survey found the cost of an average payment transaction on the Internet was 13 cents or less. This compares with 26 cents for a personal computer banking service using the bank's own software, 54 cents for a telephone banking service and $1.08 for a bank branch.

That means costs for Internet banking run at only 15-20 per cent of income, compared with an average cost:income ratio for the banking industry of about 60 per cent. "The cost advantages are just so huge that there would be no reason not to try it out," says Mr Michael Berger, of Booz-Allen's financial services team.

Booz-Allen says the Internet poses considerable threats to traditional banks, both because it costs them more to set up Web services and because it neutralises many of their competitive advantages.

"Starting an Internet bank from scratch costs about $1m – you buy all the software off the shelf. But as a European dinosaur bank you have to integrate it with your existing systems, and that is where it gets expensive," says Mr Claus Nehmzow, a Booz-Allen information technology specialist.

Moreover, it will be easier for customers to pick and choose, and harder for banks to differentiate their Web sites from their competitors' – including non-banks which can bundle financial services together on the Internet.

The survey found that three-quarters of European banks' Web sites are now at what it calls "entry level": essentially glorified brochures offering marketing information. Most of the banks surveyed spent less than $25,000 to set up their Web sites and the same again to run them.

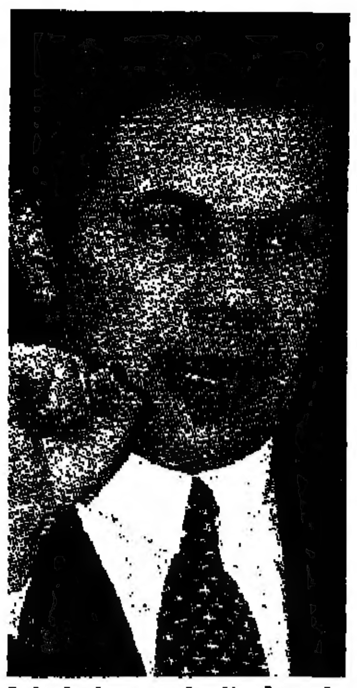
But 56 per cent of the banks surveyed by Booz-Allen planned an advanced Web site within one year, offering a fully fledged banking service. More than three-quarters planned to do so within three years.

Black America starts to log on, Page 13

CONTENTS

Albania	LEK 220	Gibraltar	£0.75	Lithuania	Lit 15.00	Qatar	QR13.00
Austria	Sch32	Greece	Dr400	Lux	LFr75	S.Arabia	SR12
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.85	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft230	Morocco	MDh18	Slovak Rp	Sk65
Cyprus	C£1.20	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kc60	India	Rs75	Nigeria	Naira90	Spain	Pta250
Denmark	DKr18	Israel	Shk7.90	Norway	NKr22.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.50	Switz	SFr3.70
Estonia	EKr 22	Japan	Y500	Pakistan	Rs40	Syria	S£65.00
Finland	FM15.50	Jordan	JD1.50	Poland	Zl 5.50	Tunisia	Din1.750
France	FFr12.00	Kuwait	Fils650	Portugal (m'land)	Esc240	Turkey	L90,000
Germany	DM4.00	Lebanon	LL3,000			UAE	Dh12.00

LONDON · LEEDS · PARIS · FRANKFURT · STOCKHOLM · MADRID · NEW YORK · LOS ANGELES · TOKYO · HONG KONG



Lebed: has made it clear he intends to become president

Uncertainties grow over whether Chernomyrdin or Lebed is running the Kremlin

Russian leaders battle for high ground

By John Thornhill in Moscow

Mr Victor Chernomyrdin, reconfirmed as Russian prime minister on Saturday, will this week form a new government to tackle a rapidly growing list of problems ranging from the turmoil in Chechnya to a threatened national coalminers' strike.

The solid former gas industry manager, first appointed prime minister in December 1992, will play a critical role in Russian politics over the next few months as uncertainties swirl around Moscow about who is running the Kremlin.

A fierce subterranean battle for influence appears to be raging among the political elite as the exhausted President Boris Yeltsin has faded into the political background since his re-election gave him time to recuperate.

After spending most of the past month in a suburban sanatorium, Mr Yeltsin now intends to leave Moscow for an extended holiday.

Mr Chernomyrdin, 58, who has established a reputation as a moderate reformer, has been strengthening his hand in the Kremlin and would temporarily assume the presidency if Mr Yeltsin were incapacitated.

But Mr Alexander Lebed, the nakedly ambitious former general who entered the Kremlin last month amid great political fanfare, has already crossed swords with Mr Chernomyrdin and made it clear he intends to become president.

In the past few days, however, Mr Lebed has been coming under increasing fire in the media for failing to react to the escalating conflict in Chechnya. His protégé, Gen Igor Rodionov, the recently-appointed defence minister, has also been struggling to exert any influence over his generals on the ground in Chechnya.

Mr Yeltsin yesterday despatched Mr Lebed, in his capacity as secretary of the Security Council, to the north Caucasus to take direct personal command of the situation – a responsibility which could either make or break his political ambitions.

In his speech to parliament on Saturday, Mr Chernomyrdin vowed he would press ahead with the broad thrust of economic reform but would pay more attention to social factors. His government would be composed of the most competent professionals representing a broad range of political forces.

"It is my duty to co-operate with all those who seek to work jointly," he said after his confirmation hearing in the lower house of parliament.

Russia's Communist party, which dominates the lower house of parliament, had earlier hinted it would oppose Mr Chernomyrdin's re-appointment as prime minister and provoke a confrontation with the president.

But some members voted for Mr Chernomyrdin in Saturday's vote, carried by 314 votes to 85, suggesting they may be prepared to take on ministerial portfolios in the new government.

Mr Gennady Zyuganov, the Communist party leader and defeated presidential candidate, struck a moderate note on Saturday, saying his party would give the prime minister 100 days to try to pull the economy out of its present crisis.

The most critical positions in the new government will be in the economic field, where drastic action will be needed to avert a looming budgetary crisis. Russia's newspapers have already floated a long list of possible ministerial candidates, most of them of reformist orientation.

Parliament was even abuzz with rumours at the weekend that Mr Yegor Gaidar, the former prime minister and architect of market reforms, might return to government. But the radical economist said he had no intention of doing so.

Chernomyrdin: strengthening his hand at the Kremlin

Greeks summon spirit of Apollo

By Kerin Hope in Athens

The sound of ancient music echoed across Delphi, site of Apollo's oracle, at the weekend as Greek experts demonstrated a working model of a "hydraulis", the ancestor of the modern cathedral organ.

Mr Panos Vlagopoulos, standing at the keyboard, extracted a plaintive but penetrating melody from a single line of metal pipes. At his side, Prof Marios Mavroidis energetically worked a hydraulic pump to ensure a steady flow of sound.

Mr Vlagopoulos, a musicologist who spent more than a year constructing the hydraulis, said: "It's an ingenious piece of ancient technology, using a metal tank of water and a pump to maintain the air pressure, rather than a pair of bellows, but it's incredibly difficult to play."

The hydraulis was probably invented in the 3rd century BC and quickly became popular because it produced loud and varied sounds, ranging from a flute to a foghorn, Prof Mavroidis said.

While only the wealthiest of ancient Greeks could afford a hydraulis, it is known to have been played in temples to entertain the patron deity. An inscription at Delphi, where Apollo was revered as the god of music, records that two Cretan brothers who played the hydraulis received a special award.

The Greek musicologists' interest in the hydraulis was triggered by the discovery in 1992 of the earliest known example of the instrument at Dion in northern Greece, a wealthy ancient city in the foothills of Mount Olympus.

Archaeologists from Thessaloniki University found the upper part of a hydraulis buried in mud which covered the remains of an ancient workshop.

"It looked as though the upper section of the instrument had been brought in for repair," said Prof Dimitris Pantermalis, the excavation director.

The only other hydraulis found in an excavation comes from Hungary and is thought to have been made in the 2nd century AD. The instrument was popular with the Romans, who used it to provide background music for banquets or circus performances. "Possibly the most famous hydraulis player of all was the Emperor Nero," Prof Pantermalis said.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
GERMANY:
Responsible for Advertising: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: P. Maraviglia, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
R

Treasury lays down law to Iri over sale

By Robert Graham in Rome

The Italian treasury has given blunt instructions to Iri, the state holding company, to proceed with the rapid sale of Seat, the profitable yellow pages division of Stet, the Iri-controlled telecoms group.

The instructions are contained in a letter sent by Mr Carlo Azeglio Ciampi, treasury and budget minister, to Mr Michele Tedeschi, Iri chairman, which has been deliberately released to reassure a sceptical public and stock market of the government's ability to push through a proper privatisation of Stet and its subsidiaries.

Last week the shares of Stet and its subsidiaries lost more than 4 per cent of their value when the centre-left government announced in ambiguous language the Stet privatisation and the future shape of its core telephone business.

The Stet sell-off was fixed for between February 1 and March 31 next year. But analysts said the government appeared to be back-tracking on its pledge to strip out non-core activities which they believe could add an extra L8,000bn ($5bn) to Stet's current L24,000bn market capitalisation.

Iri, which controls 62 per cent Stet, has fought hard to retain the telecoms group, in particular Seat. But the treasury letter makes clear there is no room for manoeuvre over Seat's sale, which could raise up to L3,000bn. It also puts pressure on Iri to demonstrate there is a better alternative solution to splitting off and selling separately the other non-core business – Sirti (engineering), Italtel (equipment manufacture) and Finsiel (software).

"Iri must rapidly carry out the necessary steps to sell Seat and to check the disposal of Sirti and Italtel, or alternatively to come up with a different arrangement," the letter says. In effect Iri is being asked to check what are the best means of disposal of Sirti and Italtel – by a public offer or private sale in agreement with existing partners. Seat is merely a division of Stet and thus easier to sell, although it will require the formation of new company first, approved by Stet shareholders.

Sirti, with 1995 sales of L1,564bn and profits of L191bn, is quoted on the stock market and controlled 49 per cent by Stet and 2 per cent by Pirelli, the cable and tyre group.

Pirelli has in the past shown interest in acquiring a bigger stake.

Italtel is a joint venture with Siemens, the latter having raised its share, buying 40 per cent last year for L372bn.

As for Finsiel, the treasury letter recognises the procedure for sale is more complex because the company handles sensitive data for the treasury and national accounts office.

Originally Mr Ciampi planned to set up a special company to handle this aspect of Finsiel's activity. But he changed his mind on Thursday and is now looking for alternative ways to cope with the problem. The treasury letter says: "Regarding Finsiel, further instructions will follow as soon as its role in relation to the public administration is defined."

Treasury officials insisted over the weekend that Mr Ciampi was determined to proceed with a sell off Finsiel. They also pointed out the treasury could scarcely ignore the advice of its external advisers on the privatisation of Stet, who said the Italian taxpayer would benefit from the sell-off of non-core telephone business.

Significantly the letter made no reference to the government's use of a golden share or the formation of a core of stable shareholders, domestic and foreign. This suggests the government may be reassessing the precise form in which these two issues will be treated.

Fighting mars Cyprus protest

A pitched battle broke out yesterday between Greek Cypriot motorcycle gangs and Turkish Cypriots in a strip of no-man's land that has divided Cyprus since 1974, write John Barham in Ankara and agencies. A Greek Cypriot man was reported to have been killed. Fifty other people, including civilians on both sides and five Turkish Cypriot policemen, were reported to have been wounded, some seriously.

The fighting started after a group of riders broke through the Green Line, the United Nations-patrolled demarcation zone separating the two communities.

Thousands of Greek Cypriot motorcyclists supported by several hundred European allies – aiming to focus international attention on "Turkish human rights violations" – had planned to break through the dividing line and ride on to Kyrenia, a tourist port in the northern Turkish sector.

Following overnight negotiations on Saturday between gang leaders and Mr Glafcos Clerides, the Greek Cypriot president, organisers agreed to cancel the protest. But after the decision was announced, about 200 protesters advanced across a lightly guarded strip of land, starting brush fires and throwing stones at Turkish Cypriot forces, who shot back.

Members of the Grey Wolves, an ultra-nationalist Turkish movement, also met the protesters, and witnesses said the 24-year-old who was reported to have died had fallen on barbed wire in the buffer zone and was beaten by Grey Wolves members.

Growth in telephone market likely to slow

By Paul Taylor in London

European telephone handset shipments increased by 4.7 per cent last year to 44.8m units according to Dataquest, the market research company. Germany remains the biggest geographic market with 10.8m telephones sold last year, followed by the UK (7.81m) and France (6.91m).

In volume terms Dataquest expects the total European market to continue to grow, but at a slower pace, to reach 53.2m units by 2000.

Revenues also grew last year, reflecting the shift towards more sophisticated products in the residential and business sectors, but are expected to begin to decline by the end of the decade as prices fall.

In most countries the market grew in value by between 4 and 6 per cent in 1995, but growth in the UK, France and Holland was slower. Overall the market is being driven by the replacement of older telephones in some countries such as Spain and Italy, and by a rise in telephones per household in more developed markets.

In the business telephone and private branch exchange (PBX) markets, growth reflects the economic recovery across Europe and improving confidence.

European-based manufacturers like Siemens, Alcatel and Matra remain the most important suppliers, although imported products which can compete more effectively on price account for an increasing proportion of sales. Siemens leads with the largest share of the residential and business markets. In the business market, Ericsson ranks third after Siemens and Alcatel.

Sales of telephones through retail outlets are expanding, helped in part by lower prices in all market segments. However the average market price has increased slightly as sales of higher priced products grow.

The traditional public telephone operators (PTO's) continue to play a significant role in shaping telephone equipment markets.

Aznar's easy ride coming to an end

David White on mixed feelings over the Spanish PM's first 100 days in office

Being prime minister has brought a small change in Mr José María Aznar's holiday habits. He has taken his family to the same beach in eastern Spain as in other years. But while before he could afford to rent only in the second row back from the seafront, now, thanks to the loan of a villa from a friendly industrialist, he is on the coveted "front line".

Here it is that Mr Aznar tomorrow marks the first 100 days since being sworn into office, after belatedly getting parliamentary support from regional parties.

The fact that this landmark, traditionally the first point for passing judgment on a new administration, falls in a week when almost everybody, including the government, is on holiday is somehow appropriate.

In a country wearied by the bitter scandal-ridden politics preceding the elections in March, the centre-right Popular party (PP) government has so far enjoyed an easy ride.

A poll yesterday in the daily El Mundo newspaper shows public opinion evenly split as to whether the government's performance to date has been good, bad or middling.

Aznar: moved to 'front line'

After a fumbling start its programme gathered momentum with packages of economic measures, some of them rushed through by decree-law. It has liberalised restricted sectors of the economy from funeral services to chemists, changed the tax structure to give privileged treatment to capital gains, and set up its stall for privatisation.

There was a hiccup last month when, to general confusion, the government discovered a Pta721bn ($5.7bn) "hole" in the 1995 budget accounts and slapped extra taxes – not part of its manifesto – on spirits and tobacco. But on the whole its running-in period has passed with barely a murmur.

One reason is that the Socialists have found it even harder getting used to being out of government, after Mr Felipe González's 13 years in power, than the PP to being in it. They have so far been ineffective in opposition: the anti-terrorist "dirty war" of the 1980s continues to cast its shadow over the party; since the election a fresh corruption affair has surfaced in its Navarre branch; and a predictably messy congress looms in the spring. An Aznar aide describes the Socialists as being "in a minefield without maps".

Nonetheless, the main task Mr Aznar set his government – putting Spain on the path of fiscal virtue – is proving harder than he expected.

The PP was counting on an outright majority, which it failed to win, and hoped to jump on to the wagon of a strong economic recovery. But growth, as in the core European Union economies that Spain exports to, has flagged and so have prospects for extra government revenues.

The signs are that the slowdown is now over, although consumers are still keeping their hands on their wallets.

The CEOE employers' federation, a big PP supporter, has marked the first 100 days as "positive", welcoming measures adopted "in line with what other EU countries have been doing".

But no wave of business euphoria has materialised. The recent comment of banker Mr Emilio Botín that "Aznar is creating confidence outside and inside the country" smacks of wishfulness. Many in financial circles have yet to be impressed.

The test is the 1997 budget, which has to be drafted next month. It needs to be both extremely tight, to meet the deficit target for the European single currency, and to the taste of Mr Jordi Pujol, the Catalan leader whose support Mr Aznar cannot do without.

Spending cuts so far, Pta200bn for this year, are timid compared with France, Germany or Italy. About Pta1,000bn more savings are required for 1997. The government, having restricted its manoeuvring room by promising no more tax increases, plans to freeze public-sector pay, putting to the proof its bid for cordial relations with the unions.

The budget has to cover the additional cost of company tax breaks and the new regional financing system which the PP agreed on in post-election negotiations. This is expected to make more impact on the 1998 budget.

The Catalan and Basque parties, with strong reservations among many of their members about the agreement, need to demonstrate that it is working in their regions' interests. Some strains are already showing between the PP and both parties.

The first few weeks after the summer break will therefore be critical both for the judgment of financial markets and for the regional political compromise on which the PP's power rests. So far, Spain with its new government has given the impression of being under anaesthetic – but not much longer.

INTERNATIONAL NEWS DIGEST

Austrian shop hours extended

Austria is poised to follow Germany's lead and liberalise its restrictive shop closing hours before the end of the year.

Representatives from business and the trade unions agreed last week to ease the rules by November 1, the day when Germany extends its own shopping hours. Experts expect Austria to copy the German model, which allows retailers to remain open until 8pm on weekdays and until 4pm on Saturday.

Currently, stores can stay open until 7.30pm on weekdays, but most close at 6pm or 6.30pm. Saturday shopping usually ends at 1 pm, as stores can stay open until 5 pm only once a month. Sunday shopping is strictly prohibited.

Short shopping hours have long been defended by trade unions and small shopkeepers, who fear they will lose business to big chains if they can stay open as long as they want. But this system came under pressure when Austria joined the European Union last year, as consumers began to shop in neighbouring countries to take advantage of lower prices and more liberal opening hours.

Opinion polls show that most Austrians are satisfied with the current shopping hours, and a complete liberalisation is out of the question for political reasons. But when Germany decided to extend its hours earlier this year, Austria was forced to act to stop even more shoppers from crossing the border. *Eric Frey, Vienna*

Spanish unemployment falls

The number of jobless Spaniards registered at employment offices fell by almost 64,000 last month to 2.17m, or 13.67 per cent of the workforce, compared to 14.15 per cent in June. The government described the figures as "very positive", saying it was the first time registered unemployment had dipped below 14 per cent since 1982.

In the past year, the figure has fallen by 193,500. New job placements during the month hit an all-time record at 332,500. However, the July performance was in large part attributable to seasonal factors.

A wide discrepancy still remains between the registered figure and the quarterly workforce survey carried out by the national statistics institute, which showed a 22.27 per cent jobless rate for the second quarter. Although the institute's figure is generally thought to overstate the situation, it is used as the authoritative measure of employment trends. *David White, Madrid*

OECD concern over Finland

Finland will have to make further cuts in public spending if it is to meet European monetary union convergence targets for the budget deficit and public debt, the Organisation for Economic Co-operation and Development warned yesterday. Its annual report on Finland also said the government should curb the generous unemployment benefits system as a way of tackling a jobless rate exceeding 16 per cent of the workforce.

The Social Democratic-led coalition government has pursued a tough fiscal policy, but the OECD said it was uncertain that planned budget savings would be sufficient to reduce a budget deficit set to reach 3.5 per cent of gross domestic product this year and to stabilise gross public debt at 60 per cent of GDP. Slower growth this year was to blame, but the OECD said the ageing population was also putting pressure on pension payments and welfare spending. *Hugh Carnegy, Stockholm*

China's inflation rate slows

China's inflation slowed further in July to its lowest level in three years, increasing the likelihood of a further easing of credit restrictions. Retail prices rose 5.8 per cent for the month compared with the same period last year, down from 5.9 per cent in June.

Chinese economists are forecasting inflation for this year of 7-8 per cent, well below the official target of 10 per cent. Inflation hit a post-1949 revolution high of 21.7 per cent in 1994. The authorities imposed a credit squeeze in mid-1993 to calm an overheating economy and restore discipline to the financial sector. Since the second half of last year the People's Bank, China's central bank, has been easing credit selectively. *Tony Walker, Beijing*

UK in Turkmen oil deal

Monument Oil and Gas, the British oil company, has signed an exploration and production sharing agreement for three oil fields with the government of Turkmenistan. Monument will keep 60 per cent of oil produced at new wells, a percentage gradually falling to 10 per cent in coming years. The remainder, along with oil produced at existing wells, will belong to the government.

Monument has pledged investments of up to $50m in the early stages but said total input could rise to $300m. The company hopes to start boosting production before the end of the year. *Sander Thoenes, Almaty*

Ravers bring Zurich to halt

Zurich, Switzerland's banking and commercial capital, hosted its largest ever street party on Saturday and it could be its last. The population of the city roughly doubled as youngsters from all over Switzerland and elsewhere in Europe took part in the Zurich equivalent of Berlin's annual Love Parade.

Some 350,000 scantily-clad "ravers" brought traffic to a halt in central Zurich for several hours as they danced through the city to the electronic techno-music of 30 truck-mounted "love mobiles".
The only hitch in the five-hour event was a disagreement over who should pay the estimated SFr60,000 ($50,000) clean-up costs. The organisers have warned that if they have to continue to foot the bill they may move the event to Geneva. *William Hall, Zurich*

NEWS: ASIA-PACIFIC

China softens line on HK democrats

By John Ridding in Hong Kong

China has signalled a softer line towards Hong Kong democrats in an attempt to secure co-operation over next year's transfer of sovereignty, according to members of the Beijing-appointed committee overseeing the handover.

In a speech to the Preparatory Committee at the weekend, Qian Qichen, China's foreign minister, said that Beijing was open to discussion with those opposed to its stance on handover issues.

"As long as they share the common ground of support for the resumption of sovereignty and hope for a smooth transition we can discuss the Hong Kong question and make things better," he said.

Mr Qian's comments come as China seeks to step up preparations for its resumption of sovereignty and to ease concerns in Hong Kong. Beijing's plans to scrap the territory's elected Legislative Council (LegCo) have drawn fierce criticism from the Democratic party, the biggest party in the legislature, and have prompted worries about political freedom after the handover.

Mr Martin Lee, leader of the Democratic party said Mr Qian's remarks represented a more open-minded attitude than Beijing's previous stance, which has excluded dissenting views from the transition process.

However, he said the party would uphold its policy of opposition to the Selection Committee, the 400-member body which will nominate the chief executive to head the post-colonial government in Hong Kong and the members of the provisional legislature which will replace the existing LegCo.

Qian, left: his remarks were welcomed by Lee

"We will not make a U-turn and help set up something which is illegal," added one democrat, referring to the provisional legislature.

He warned that China might simply be seeking "to give some respectability to its political acts and its abolition of LegCo".

Under resolutions approved by the plenary session of the Preparatory Committee in Beijing, the Selection Committee will comprise 400 Hong Kong residents – drawn equally from the four categories of the business community, professions, politics and labour representatives, grassroots and religious organisations.

Nominations for the committee may start as early as this week and, in a sign that Beijing is anxious to press ahead with preparations for the handover, officials indicated that they hoped to complete the selection of the chief executive in November.

Mr Tung Chee-hwa, the shipping tycoon, appears to have strengthened his position as frontrunner for the post, according to Preparatory Committee members. Several influential members voiced support for Mr Tung at the weekend including Mr Louis Cha, a veteran adviser to Beijing. Although Mr Tung has yet to declare his candidacy, he already has strong backing, including that of Mr Henry Fok, one of the committee's vice-chairmen.

Japanese appeal on liquor tax ruling

The Japanese government has appealed against a World Trade Organisation ruling that Japan's liquor tax regime is in breach of WTO rules, writes Michiyo Nakamoto in Tokyo.

The ruling followed the imposition of higher tariffs on distilled liquors, such as whisky, than on domestically produced shochu, a white liquor produced mainly by large Japanese companies.

Japanese taxes on whisky and brandy are four to seven times those on shochu. The EU, US and Canada, which launched the WTO complaint against Japan, claim that Japan's unfair tax regime is largely responsible for falling whisky and brandy sales.

Since 1989 shochu's share of Japan's distilled spirits market has grown from 61 per cent to 74 per cent, according to European businesses.

The WTO panel last month urged Japan to take measures to close the gap between taxes on shochu and other distilled liquor.

Bomb sites greet tourists

Amal Jayasinghe on Sri Lanka's depressed leisure industry

The few foreign holiday-makers still visiting Sri Lanka can tour the newest attraction – the scenes of recent bomb attacks – within a short drive from luxury hotels.

Western tourists join local residents behind police barriers to view the shell of the central bank and other nearby high-rise buildings devastated during a suicide bombing on January 31 by the separatist Tamil Tiger guerrillas.

The sites are not included in any travel brochure but most taxi drivers point to the first – a monument at Armour Street to President Ranasinghe Premadasa who was assassinated by a suicide bomber in May 1993 – as visitors are driven into the capital from the airport.

A short walk from the central bank and along the promenade right in front of the luxury Taj Hotel lies the spot where the navy chief Clancy Fernando was killed by another suicide bomber in November 1992.

There are at least half a dozen other such sites, some with monuments, others with no sign of the destruction caused at the time.

Foreigners have not been targeted in any of the attacks but the bombings have hit tourist arrivals with official figures pointing to a 40 per cent drop in the first five months of this year.

President Chandrika Kumaratunga last month ordered the release of some SLRs600m ($11m) as concessionary loans to clean up the multi-storeyed buildings in central Colombo damaged during the attack on the central bank.

The president said Queen Street, *where most of the buildings were* either burnt or badly damaged, had turned into a new tourist attraction and must be rebuilt soon.

The government's battle against the Tamil Tigers is almost 400km to the north of the capital and safely away from the tourist sites but the reports of fighting have worried travel agents.

Hotel owners say they are already in the red. Most have dismissed part-time employees and many are threatened with closure.

> There has been a 40% fall in tourist arrivals in the first five months of this year

Some hotels have begun offering rock-bottom prices to local visitors just to remain in business. One of the best hotels in the central Kandy region offers full board at SLRs750 a night.

"Hotels are in a desperate situation," said Mr Gilbert Jayasuriya, president of the Hoteliers Association. "Unless the government does something to repair the image of the country, the whole industry will collapse." Since the central bank blast, in which 91 people died, arrivals have been going down.

Sri Lanka's main market, Germany, recorded a fall of 44 per cent to 20,517 German tourists visiting Sri Lanka in the first four months of the year. The number of Britons dropped by 6.7 per cent to 19,563. Mr Jayasuriya said most *hotels were experiencing occupancy* rates of about 20 per cent.

The poor performance in the tourism sector was reflected in the latest annual report of John Keells Holdings, the diversified Sri Lankan private company.

Mr Ken Balendra, the chairman, said the fall in the number of holiday-makers had hit the leisure industry badly and his company had deferred plans to build two new hotels.

"Sri Lanka has now established itself as a low-budget, last-minute destination where tour operators fill empty seats on airlines at substantially lower package prices which eventually filter down to lower hotel and transport rates.

"This is the unfortunate predicament that the industry finds itself in."

Mr Dharmasiri Senanayake, tourism minister, said Sri Lanka was about to launch a big publicity campaign abroad and invite foreign journalists to assess how safe the country was for tourists.

"Every country has these problems," Mr Senanayake said. He said a moratorium on loan re-payments by tourist hotels would be in force until the end of this year when the industry was expected to emerge from the present recession.

"Hotels will not have to pay the instalments on the loans outstanding since April," Mr Senanayake said, adding that the government together with airlines and private-sector companies would spend SLRs125m to rebuild the country's image as a safe holiday destination.

Bangkok split on banking licences

By Ted Bardacke in Bangkok

The approval of new licences for domestic banks in Thailand is causing a big split in the seven-party coalition of Prime Minister Banharn Silpa-archa. The leader of one government party has alleged that $90m in bribes were paid by applicants and has threatened to help topple the prime minister if the licences are awarded as scheduled at a cabinet meeting tomorrow.

As part of a plan to liberalise financial markets, the government agreed to award five new domestic banking licences, the first new licences granted for more than 20 years.

Six groups applied and a committee led by former Bank of Thailand governor Vijit Supinit recommended three winners. Their applications were passed on to Mr Surakiart Sathirathai, the then finance minister, who said he would approve them.

But Mr Vijit and Mr Surakiart were both forced to resign before the new licences could be acted on by the cabinet. Supporters within the coalition of groups which were disqualified have sought to exploit the turmoil by seeking to derail the liberalisation.

Deputy Prime Minister Chavalit Yongchaiyudh, leader of the coalition's second largest party and an aspirant to the prime minister's office, has complained that the rejection of a group led by the War Veterans Organisation was unfair even though the group's application violated bid terms on several counts.

Gen Chavalit, who is also defence minister and has spearheaded a drive to move military organisations into commercial business, prevented the banking issue from being put on the cabinet agenda last week.

Justice Minister Chalerm Yoobamrung, an ally of Gen Chavalit, claimed Bt750m ($29.8m) was "paid under the table" for each of the new bank licences.

Rumours of such payments have long been circulating in the financial community and officials involved in the screening process have denied wrongdoing. Analysts say the row is part of a growing intrusion by politicians into the affairs of the bureaucracy.

Jakarta to revive sell-off impetus

By Manuela Saragosa in Jakarta

Indonesia's state-owned electricity company Perusahaan Listrik Negara and steel manufacturer Krakatau Steel plan to list their shares next year.

The move will help revive Indonesia's privatisation programme, following last year's disappointing response to the initial public offering of Telkom, the state-controlled domestic telecoms company.

The announcement came only a few days after news that Bank Negara Indonesia, the country's largest bank, will be ready to sell shares to the public later this year.

Krakatau Steel planned to hold an initial public offering to raise $600-$700m in the second half of 1997, said Mr Soetoro Mangoensoeworo, president director.

It is unclear whether the steel group's offering will include an overseas listing. However, finance ministry officials confirmed earlier this year that the BNI float would be a domestic issue.

Mr Djiteng Marsudi, PLN's president director, said two of the company's power generating units serving the Java/Bali grid – Genco I and Genco II – would be floated on international capital markets.

The two generation units, which have a book value of Rp6,000bn ($2.6bn) each, are wholly owned by PLN, the biggest state-owned company which had assets worth Rp44,000bn at the end of 1995. "We are at the stage of looking for legal and financial advisers," Mr Djiteng said.

The offering will be structured along the lines used by Telkom, which initially planned to sell 27.5 per cent of its shares but was forced to reduce the offer to 19 per cent after poor international demand.

The cash-strapped electricity company, which plans to fund its annual $3bn-$4bn capital expenditure requirement through a combination of internal cash, government equity, soft loans, exports credits and capital markets proceeds, plans to increase installed capacity by 40 per cent to 20,000MW in 1999.

Mr Djiteng said the company expected electricity consumption to continue its rapid increase.

The big question is whether Kemp and Dole can sing from the same Republican hymnbook

Footballer-turned-politician rescues convention

By Jurek Martin in San Diego

US ELECTIONS November 5

There was a time when Jack French Kemp appeared to have been endowed with the perfect initials. As the 1980s dawned, the football player-turned-politician, brimming with energy, ideas and enthusiasm, was heralded as the logical heir to the conservative Reagan revolution he had helped usher in.

Now, if he is ever to become president, it will be via the unlikely route of having helped propel into the White House the 73-year old Bob Dole, a man with whom he had little in common and with whom there is a record of animosity, and as the vice-presidential candidate of a party of which he said but six months ago "I don't know where I fit in these days".

At the very least, Mr Dole's choice of the 61-year-old Mr Kemp as his running mate has rescued this week's party convention. It was either the best kept secret in contemporary political history or, much more likely, yet another 11th hour gamble by the Republican nominee comparable to his unexpected decision to leave the Senate.

Although vice-presidential candidates rarely make a critical difference to an election, Mr Kemp undoubtedly brings to the ticket a certain glamour and a longstanding national reputation, unlike most of the handful of Republican governors and senators Mr Dole had under consideration.

Even Democrats concede that only retired General Colin Powell, or possibly Governor Christine Todd Whitman of New Jersey, could have brought greater "star" appeal, but both long ago took themselves out of consideration.

But the choice poses almost more questions than it answers. Can Mr Dole and Mr Kemp possibly sing from the same hymnbook for the duration of the campaign against President Bill Clinton and Mr Al Gore? Can Mr Kemp, with his libertarian streak and self-described "bleeding heart" social instincts, stop feuding with the dogmatic social and religious conservatives who dominate the Republican party or will be succeed in significantly broadening its narrowing base?

Jack Kemp was born and educated in California and first made an impact in his 14-year football career as a quarterback for the Los Angeles Chargers, who moved to San Diego. This history might help a little in a state which President George Bush wrote off in the 1992 campaign and where Mr Dole now trails Mr Clinton by around 25 points.

He also commands respectable upstate New York credentials, having had his best seasons playing for the Buffalo Bills until 1970 and then representing the city from 1971-89 in the US House of Representatives. Like Bill Bradley, the basketball star who became the Democratic senator from New Jersey, sports never impeded his political interests and he was a special assistant to then Governor Ronald Reagan of California as early as 1967.

In Congress, Mr Kemp, unlike Mr Dole, was a tax-cutting supply sider from the beginning, co-author, with the senator from Delaware, of the Kemp-Roth programme, the premise of which was that lower taxation would generate economic growth of such magnitude that the federal deficit would inevitably decline. But he was also then, and may still be now, a believer that fiscal discipline required the US to return to the gold standard.

He entered the 1988 campaign for the Republican nomination with high hopes but, along with Mr Dole, performed disastrously. He preferred long-winded lectures to conventional stump speeches and grass roots organisation and was eliminated from contention early - though not before some public spats with the man who has now invited him on to the ticket.

Still, his reputation was high enough among conservatives that he was an early favourite to become George Bush's running mate. That went to then Senator Dan Quayle, but compensation came in Mr Bush's offer to serve as housing secretary.

For many of the next four years Mr Kemp appeared a fish out of water in the Bush cabinet. Representing working class Buffalo had turned him into an enthusiast for inner city revitalisation – through the creation of enterprise zones and the privatisation of public housing.

But domestic policy was never the Bush administration's priority, nor were improved relations with American minorities, especially blacks. Mr Kemp always said that the locker rooms of his sporting career had been a powerful antidote to racial prejudice but it was only after Los Angeles erupted in flames in 1992 following the acquittal of the four policemen accused of beating Rodney King, an African American, that he was able to drag his president into a public response.

With Mr Bush's defeat, Mr Kemp moved into the Washington think-tank world, as co-director of Empower America along with Mr Bill Bennett, the former education secretary. The institute was partly financed by Mr Steve Forbes, the magazine millionaire and a longstanding personal friend, whom Mr Kemp endorsed over Mr Dole in earlier primaries this year.

That perch found Mr Kemp increasingly at odds on social policy with the conservatives who swept into power in Congress in 1994. Earlier that year he campaigned against the California ballot initiative that sought to deny social services to illegal immigrants.

This is by no means the only article of the current Republican faith which must render him uneasy. He is opposed to wholesale dismantlement of affirmative action programmes designed to help minorities; he has expressed concern over radical welfare reform; and he thinks the 1994 ban on the sale of assault weapons should be retained.

Although a personal opponent of abortion, Mr Kemp's libertarian bent means he has never expressed interest in a constitutional amendment to outlaw it, as the platform has demanded since 1980. His selection has, therefore, been welcomed by pro-choice Republicans but immediately criticised by Mr Pat Buchanan's cohorts.

But the Dole-Kemp ticket thinks it can do what Mr Clinton did four years ago with his campaign motto "it's the economy, stupid". In that respect it is the senior partner. Mr Dole, once so dismissive of the supply side approach, who has moved far enough in Mr Kemp's direction to make the improbable marriage thinkable.

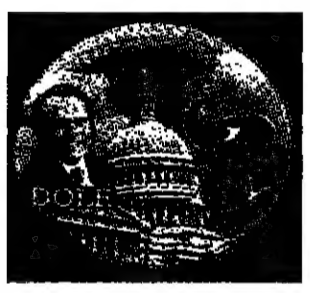
Still, like husband and wife, both will have to contain their language. Mr Dole had courted Mr Kemp early in the primaries and, when jilted for Mr Forbes, commented "I've had it with the quarterback". Now he has tied a knot with the old ball-thrower.

Laconic Dole looks for Republican bounce

Bob Dole (right) with his newly announced running mate Jack Kemp at a campaign rally in Kansas Reuter

The conventional wisdom about conventions is not rocket science. In polling terminology conventions usually provide what is called a "bounce," albeit a temporary one. Even those who eventually go on to heavy defeat, such as the Democrats Walter Mondale and Michael Dukakis in 1984 and 1988, came out of their conventions with reasons to hope after raising their ratings by upwards of 6 points.

Mr Paul Manafort, managing affairs in San Diego for



Mr Bob Dole, freely talks polling numbers. He wants the Republican ticket's deficit down to "single digits" by the end of this week compared with the 20 points and more it now lags behind President Bill Clinton and Vice-President Al Gore.

Thus the serious game, beneath all the balloons and hoopla, is to energise the party rank and file for the battle ahead while giving the national watching audience and the media reason to take a second look at the November option.

That has been a problem for the Republican party in the last two presidential election years. Houston in 1992 exposed large fault lines between moderates and the surging conservative tide, divisions which, if anything, may be more acute today.

The unexpected choice of Mr Jack Kemp as Mr Dole's running mate probably does no short-term harm, not least because it gives the party both an economic focus and an institutional populist villain – the Internal Revenue Service.

This has been made possible by the presidential nominee's Damascene conversion to supply-side economics, revealed in his tax-cutting programme last week, which might draw attention away from the party's gulf on social policy, even though it has already invited the inevitable "flip-flop" charges from the Democrats.

For once, the discontented Republican moderates are complaining as loudly as the right-wingers. Over the weekend two of the most influential state governors, Bill Weld of Massachusetts and Pete Wilson of California, head of the host state to the convention and a former mayor of San Diego to boot, did not bother to hide their pique.

Mr Weld announced he would not address the convention on Wednesday night because the Dole campaign wanted him to speak only on economics rather on diverse party opinions on abortion. He was also furious that he had been asked to introduce a video on the merits of Mr Morry Taylor, the midwestern tyre magnate who won a few thousand primary votes with strongly protectionist arguments inimical to the governor's convictions.

Mr Weld is in the toughest of races for the senate seat held by Mr John Kerry, the Democrat, in a state with a liberal tradition. He is not about to give his opponent any free ammunition along the lines that he is a tool of dogmatic conservatives.

Mr Wilson, like Mr Weld strongly pro-abortion and unpopular with religious and social conservatives, was miffed because he was allocated what he thought was an inferior and ridiculously short speaking slot.

The greatest capacity for mayhem still rests with Mr Pat Buchanan, the right-wing pundit and candidate, who is certain to speak his mind on the convention floor or off it if he is excluded.

But even his rambunctiousness may be tempered by the knowledge that conservatives have drawn up a party platform as far to the right as any in recent Republican history. His sister, Bay, was not far wrong in describing the platform as "Buchananesque throughout" on issues ranging from abortion, the death penalty, affirmative action, gun control, immigration and xenophobic America First foreign policy. It would even deny the 130-year-old right of citizenship to anybody born in the US.

However, it is equally conventional that though the platform may matter to the committed and activist delegates who drafted it, it often disappears into oblivion as the campaign proper unfolds. Even the party candidate may choose to overlook those parts of it he does not like, although the opposition will try to saddle him with it, as the Clinton campaign certainly will Mr Dole.

For that reason, and counteracting the discontent of Messrs Weld and Wilson, the Dole campaign is also parading Republican moderates this week – none more illustrious than retired General Colin Powell, one of tonight's featured speakers, as well as Congresswoman Susan Molinari of New York.

There will also be tonight the now traditional tribute to former President Ronald Reagan, including an appearance by his wife, Nancy, plus speeches by the other two living Republican ex-presidents, Gerald Ford and George Bush. Glossy "infomercial" videos will again prove a staple diet for the gaps between the speeches.

On the other hand, one of the most visible Republicans on national TV this week will be the man who dislikes sticking to scripts and whom the Democrats consider their biggest electoral asset – Mr Newt Gingrich, Speaker of the House and one of the convention's presiding co-chairmen.

A year ago Mr Gingrich might have seen his chairmanship as yet another jewel in the crown of his conservative revolution, but that was before he, and it, got carried away and allowed Mr Clinton to re-establish himself as the clear favourite for re-election.

Yet it is the last act of the convention, the acceptance speeches by Mr Dole and Mr Kemp on Thursday night, which may matter most of all if the "bounce" is to be measured in more than inches.

It will not be easy for the notoriously laconic presidential nominee to rise to the occasion. He could do worse than take another look at the eloquent acceptance speech of another politician with a reputation for mangling words - George Bush in New Orleans in 1988. That speech contained many memorable phrases, none finer than "we've got to leave the tired old baggage of bigotry behind".

That sent the then vice-president well on his way to reducing Michael Dukakis's bounce to millimetres.

Jurek Martin

Perot party's anti-convention

By Patti Waldmeir in Long Beach, California

No balloons. No delegates. No placards. The Reform party of Mr Ross Perot, America's anti-politician, last night held its anti-convention.

The point, say Reform party officials, was to appeal to voters tired of politics as performance art and who prefer to see it as serious business. So they set out to produce a convention as homespun and glitz-free as the Texas billionaire himself.

But that message was rapidly sullied by allegations Mr Perot – who ran for president on a clean-politics ticket in 1992 and won 19 per cent of the vote – had resorted to some of the oldest tricks in the partisan handbook to defeat his rival, Mr Richard Lamm, for the Reform party's presidential nomination.

Last night was the final skirmish in the nomination battle, but the victor will not be known until Sunday. For the party's nomination process is as unconventional as the convention itself: instead of a heavily staged meeting with thousands of delegates in one place, the Reform party is holding what amounts to a "virtual" convention. Party supporters were actively discouraged from coming to the convention site in Long Beach, and asked to follow proceedings on cable television, from their own sitting rooms or with like-minded people at so-called "watch parties".

Over the next week they will vote for their nominee, either by phoning a special toll-free number flashed across their television screens, by logging on to the Internet and registering their choice via a Reform party web site, or, for the technologically challenged, by post. Voting is due to continue until the party announces its nominee on Sunday in Valley Forge, Pennsylvania.

Party officials argue that this exercise in "electronic democracy" is fairer than a conventional convention, because it invites the direct participation of every party supporter. But Mr Lamm, a former Colorado governor, has reason to disagree.

He has aired a litany of complaints against the man who founded the Reform party (and who paid for last night's convention). He says Mr Perot denied him access to the master-list of party supporters, which was drawn up by Perot officials based on signatures gathered at petition drives across the country.

Perot spokesmen claim a technicality of the electoral law prevented them from giving Mr Lamm the names and addresses of the 1.1m people on that list. But the dispute has damaged the image of the party of clean politics.

Mr Lamm appeals to many who dislike the mercurial Mr Perot. But he has a reputation for dour plain-speaking, earning him the nickname "Governor Gloom" during his days in Colorado politics, which may prove a handicap.

Mr Perot will almost certainly defeat him in the poll. But the most interesting figure could be the number of people who bother to vote at all. When the party sent out nearly 1m primary ballots in July, to determine who should be on the final nominating ballot, only 4.9 per cent were returned.

Argentina set for fresh dose of austerity

By David Pilling in Buenos Aires

President Carlos Menem this weekend warned Argentines to prepare for imminent austerity measures, saying sacrifices would be demanded from all sectors of society.

Mr Menem, in his annual speech to the powerful Rural Society, said: "This president does not want to single out industries for taxation and even less to punish the farm sector and the interior of the country. But we are asking for an effort from all."

His message came ahead of the expected announcement this week by Mr Roque Fernández, the newly appointed economy minister, of measures aimed at closing the budget deficit, expected to reach $6bn this year.

Mr Fernández, an orthodox monetarist, believes it is vital to tackle the deficit – more than twice that agreed with the IMF – to restore confidence and reduce interest rates.

A proposed increase of up to 30 per cent in diesel prices has stirred the wrath of farmers, for whom diesel is an important input. Mr Enrique Crotto, president of the Rural Society, told Mr Menem that any increase would damage the agriculture sector, performing well after years of stagnation. A return to the past, in which farmers were squeezed to subsidise industry, would be a disaster, he said.

Top industrial leaders were equally adamant. Plans to scrap exemptions on value-added tax, to raise employer contributions and to cut export subsidies would kill off the tentative recovery from last year's recession, they said.

Last week, unions paralysed the country in protest at measures to cut wages and family allowances. The strike, the biggest since Mr Menem took office in 1989, broadened into a repudiation of the government's economic policy in general.

Against this background, the delay in announcing the economic package, originally expected several days ago, has caused speculation of deep rifts within the government. Mr Fernández may be struggling to convince all sections of the governing Peronist party of the wisdom of pursuing austerity in the context of recession, record unemployment and growing discontent.

Landmark lawsuit tests tobacco giants' nerve

The cigarette industry will fight the case down to the very last appeal, says **Richard Tomkins**

A Florida lung cancer patient who smoked for more than 40 years was due to collect $750,000 from the US tobacco industry after winning a landmark lawsuit late on Friday.

How long he will keep the money is another matter: for one certainty about the case is that the tobacco companies will go to almost any lengths in their efforts to get the ruling overthrown.

Until now the long-standing boast of the US tobacco industry has been that it has never been forced to pay a penny in damages to anyone claiming to have suffered damage to their health from smoking cigarettes.

US juries have traditionally taken the view that, with or without the health warnings nowadays printed on cigarette packs, consumers are well aware of the risk associated with smoking and choose to accept them each time they light up a cigarette.

The only exception occurred in 1988 when a jury awarded damages of $400,000 to the husband of Rose Cipollone, a New Jersey woman who died of cancer after smoking about 30 cigarettes a day since the age of 16: but that award was overturned on appeal.

On Friday the tobacco industry's record came under threat again when a six-member jury in Jacksonville, Florida, awarded $750,000 to Mr Grady Carter, a 66-year-old retired air traffic controller, and his wife Mildred.

In a trial lasting about three weeks, Mr Carter told the Duval County Circuit Court that he had started smoking in 1947, favouring unfiltered Lucky Strikes before switching brands in 1972. He gave up smoking in 1991 when doctors found he had cancer, and had part of a lung removed the same year.

Mr Carter's lawyers appear to have based their case on the fact that health warnings did not begin to appear on cigarette packs in the US until 1966. Mr Carter said he was encouraged to smoke by pre-1966 advertisements, some of which implied that one brand might be safer than another.

Mr Carter's lawyers also presented the court with copies of internal documents recently leaked from Brown & Williamson Tobacco, the third biggest US tobacco manufacturer, suggesting that the company knew far more about the health risks associated with smoking than it had ever chosen to share with the public.

Mr Carter's suit was brought against American Tobacco, maker of Lucky Strikes. Following a takeover in 1994, American Tobacco is now part of Brown & Williamson Tobacco, which in turn is owned by Britain's BAT Industries.

News of the Carter verdict came as the New York Stock Exchange closed on Friday, but in after-hours trading tobacco stocks plunged by up to 15 per cent on fears a wave of similar lawsuits could follow. Prices are expected to tumble when official trading opens this morning.

US tobacco companies dismissed the verdict as "an aberration" and said it would almost certainly be overturned by a higher court. Brown & Williamson Tobacco said the award was "the product of error that is subject to appeal with a very good possibility that the verdict will be reversed."

R.J. Reynolds Tobacco, the cigarette-making subsidiary of RJR Nabisco, said the ruling was "riddled" with errors. It said the court had allowed into evidence documents from a company whose products the plaintiff never smoked, and that some of the advertisements that were presented as evidence ran before the plaintiff was even born.

Philip Morris, the biggest US tobacco company, also pointed to the fact that no legal precedent had been set by the Carter verdict because each tobacco case had to be based on the unique circumstances of each individual smoker. Indeed, an attempt to bring a class action suit on behalf of all US smokers was thrown out by an appeal court in May.

Even so, a spate of leaked documents indicating that tobacco companies systematically concealed evidence about the health risks and addictivenes of smoking has done little to enhance the industry's reputation: and the Carter ruling could prove pivotal if it indicates that US juries are at last starting to take a different view on the issue of liability.

Lex,Page 18

Cloud over Canada's economic silver lining

By Bernard Simon in Toronto

Two announcements from Ottawa have proved that for Canada's economy almost every silver lining seems to have a cloud.

The Bank of Canada showed its new-found independence from the US Federal Reserve on Friday by lowering interest rates for the fifth time this year without waiting for a lead from Washington, and without causing a run on the Canadian dollar.

But the reason for the aggressive loosening of monetary policy was clear from news that unemployment in July was 9.8 per cent. The jobless rate has been above 9 per cent every month for almost six years, a stretch not equalled since the Great Depression.

While US economists fret about the inflationary impact of strong economic growth, the Bank of Canada has suggested that it is more worried about deflation.

Canada's inflation rate is 1.4 per cent, about half US levels. But gross domestic product edged up by a modest 1.4 per cent in real terms in the year to May, with exports providing most of the impetus. Despite the slide in interest rates, housing starts are only moderately above last year's levels, the lowest in over three decades.

The central bank's latest easing has prompted commercial banks to cut their prime lending rates from 6.25 to 6 per cent, effective today.

Short-term Canadian rates dipped below US levels in February, and the gap has widened ever since. By the end of last week the spread on two-year bonds was approaching 1 percentage point, and five-year bonds were on the verge of dipping below their US counterparts.

"This is truly a brave new world for Canadian monetary policy," enthused Ms Sherry Cooper, chief economist at Nesbitt Burns, a Toronto securities firm. Ms Cooper said another rate cut could be in the offing after this Friday's monthly inflation report, provided the Canadian dollar remained stable.

The absence of the currency pressure that has abruptly pushed interest rates upward in the past reflects a number of favourable trends. Besides low inflation, the current account of the balance of payments is heading towards a surplus for the first time since 1984.

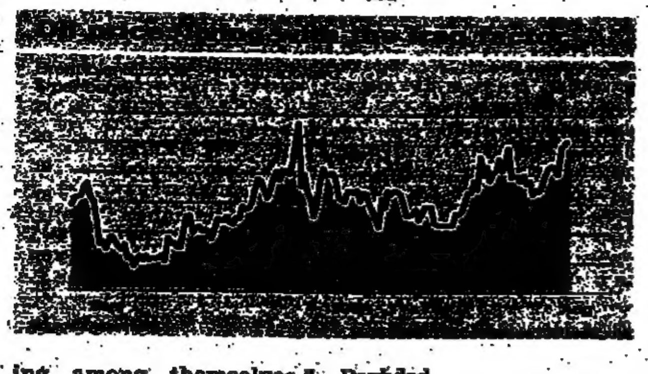
صكدا من الاجل

NEWS: INTERNATIONAL

No evidence of tussle over market share

Oil prices resilient in face of Iraq deal

By Robert Corzine in London



Market fears that US approval last week of the United Nations' oil-for-food plan for Iraq would trigger an oil price collapse have proved over-pessimistic, according to industry analysts and traders.

However, they warn that the resilience of the relatively high current oil price will be tested when physical supplies from Iraq begin to flow, probably in the next month or so.

The last barrier to the resumption of Iraqi oil exports for the first time since the invasion of Kuwait six years ago was lifted on Wednesday when the US joined other UN Security Council members in approving a plan to monitor oil sales and to distribute humanitarian supplies within Iraq, including the rebellious Kurdish areas in the north of the country.

There had been concern that the final UN approval would signal the start of a price war by countries such as Iran, which stand to lose market share to Iraq. The announcement in May that Baghdad would finally accept UN Resolution 986 after years of rejecting it as an unwarranted intrusion on the country's sovereignty unsettled oil markets. But prices actually firmed after last week's announcement and traders say there has been no evidence that other members of the Organisation of Petroleum Exporting Countries are cutting prices to protect export markets.

Until recently the conventional wisdom was that Iraqi crude would edge out other Opec producers and "that would leave them depressed and they would start fighting among themselves," according to Mr Robert Mabro, director of the Oxford Institute for Energy Studies. "But the simple fact is that the world oil market is tighter than most people think."

He believes that the strong growth in world oil demand means that it will take only six months or so to absorb the 600,000-700,000 barrels a day of Iraqi crude that is expected.

But he concedes that the short-term impact could destabilise the Mediterranean oil market, where much of the Iraqi crude is likely to be sold.

"The Mediterranean is always tricky," he says. "The arrival of Iraqi oil could stress the market quite easily. It depends on what it will displace."

Iran, Iraq's arch-rival, will be one of the countries most affected, as it is a big supplier to the Mediterranean market. Russia, ironically one of Iraq's main backers on the Security Council, also depends on the region to take much of its Urals Blend.

Some analysts expect Iraq will try to undercut such producers and maximise export volumes in order to re-establish links with old customers and to entice new ones to do business with Baghdad.

They note that the UN deal, which sets a value rather than volume target for Iraqi exports of $2bn every six months, might work to Iraq's advantage. But such a strategy may prove tricky to implement. The UN guidelines prevent the country from dumping oil on the market and the US is expected to examine each sale in detail to ensure that Iraq does not gain any undue advantages.

"I don't see the Americans turning a blind eye and I don't expect the Iraqis to play by the book," says Mr Mabro.

Analysts say other political factors could also help stave off a general price collapse if the arrival of Iraqi oil does prove destabilising. The renewed tension between the US and Iran may make some of the world's refiners more cautious about the level of stocks they hold.

Mr Gary Ross of Pira, an oil industry consultancy in the US, says even relatively small changes in stockbuilding patterns could give substantial support to prices. "The addition of just another day or two's consumption to industry stocks could keep fundamentals strong this winter," he says.

Violence erupts over crime rally in S Africa

By Roger Matthews in Cape Town

South African troops and police yesterday fired rubber bullets and tear gas as violence flared in Cape Town following Moslem-led demonstrations against the country's worsening crime rate.

Tension increased throughout the day, initially provoked by gangsters who showed their contempt for supporters of law and order by staging their own armed demonstration, marshalled by police.

Two kilometres away, tens of thousands of Moslems, supporters of the community-based organisation People against Gangsterism and Drugs (Pagad), held a rally to underline their readiness to defy the law by launching further action against gang leaders. Troops and police in armoured vehicles patrolled the adjoining suburbs in an attempt to keep the two sides apart.

"We will continue our mass action, pickets and demonstrations in front of the houses of the gangsters until it dawns on people that we are no longer prepared to put up with this intolerable level of crime," said a spokesman for Pagad.

The organisation last week gave gangsters seven days to surrender themselves and confess their crimes. Pagad leaders warned journalists to stay away from the rally because they could not guarantee their safety.

A week ago members of Pagad killed Rashaad Staggie, a gang leader, after a 15-minute gun battle which television cameras filmed and police did nothing to prevent.

His twin brother, known as "mad dog Rashied", led yesterday's counter-demonstration, travelling in a bright red car and shielded by darkened glass. He was accompanied by at least 1,000 supporters.

The Pagad rally in Athlone attracted delegations from several South African cities. During talks on Saturday with Mr George Fivaz, the national police commissioner, Pagad leaders agreed that there would not be a visible display of weapons during the rally.

Later, however, members of the crowd produced weapons and groups of men left the rally saying they were going to march on the homes of drug dealers. Police and troops attempted to stop them and opened fire with tear gas and rubber bullets.

Mr Fivaz had earlier refused to meet a delegation representing the gangsters. "Why give legitimacy to the illegitimate?" he asked.

Support for Pagad appeared yesterday to be growing nationally, with demonstrations in Durban and in Lenasia, a south-western suburb of Johannesburg which adjoins Soweto.

Mr Pik Botha, the former foreign minister, called yesterday for the suspension of parliament and the staging of a national convention to discuss ways of halting the crime wave.

Parliament resumes today in Cape Town after the winter recess and members of the opposition National party are expected soon to raise the crime issue.

Arafat attacks Israeli decision on settlements

By Sean Evers in Cairo

Palestinian President Yassir Arafat yesterday expressed his disappointment with the new Israeli government's decision to lift the four-year freeze on Jewish settlements in occupied Arab land. He also said he would turn to international arbitration if his peace goals were frustrated by the Jewish state.

Mr Arafat said he was "very disturbed" by the government decision, describing it as tantamount to tearing up the Jewish state's 1993 Oslo peace accord with the Palestinian Liberation Organisation.

Mr Arafat met the Fatah central committee in Cairo, the main party of the Palestinian liberation movement, where they discussed the status of Jerusalem and the crisis presented by the resumption of the settlements policy. It was the first full meeting of the central committee since the Oslo accord.

Mr Nabil Shaath, minister of planning and international co-operation for the Palestinian Authority, yesterday said "settlements and peace cannot go together". He said: "People are asking us to wait and see, but you cannot wait without preparing yourself."

There are 145,000 Jewish settlers living in 144 settlements in the West Bank and the Gaza Strip, home to nearly 2m Palestinians. The decision by Mr Benjamin Netanyahu, the Israeli prime minister, will clear the way for the sale of 2,509 new apartments in the West Bank, bringing up to 10,000 new settlers into the occupied territories.

"The world, the Israelis, and Mr Netanyahu must understand that we have two things that, if developed, can end the whole peace process, renewed settlements and Jerusalem," said Mr Faisal Husseini, the top Palestinian official in Jerusalem.

The Israeli government has said that it would not restart negotiations with Mr Arafat and the Palestinian Authority until the Palestinians halted all political activities in east Jerusalem. Mr Netanyahu claims that operations at the Orient House, the un-official PLO headquarters in the holy city, were a violation of the Oslo agreement.

"The meeting of the leadership of the biggest Palestinian organisation will strengthen the Palestinian Authority and give new hope to the Palestinian people," said Mr Husseini.

A Palestinian official said Mr Arafat was resisting advice from Egyptian President Hosni Mubarak and Jordan's King Hussein to give Israel more time to fulfil agreements with the Palestinians. This marks a strategy change. Previously he has been reluctant to come out strongly against the new government.

Mr Netanyahu sparked further Arab anger yesterday when he ruled out compromise on Jerusalem, one of the thorniest issues in the peace talks. Mr Netanyahu was elected on a platform that upholds all of Jerusalem as the eternal capital of the Jewish state.

British government backs Lloyd's of London by intervening in US case

Rebels seek extra time in court challenge

By Ralph Atkins and Jim Kelly

Rebel investors at Lloyd's of London seeking a judicial review of the market's recovery plan are today expected to ask for an adjournment at the High Court following difficulties in securing full funding for the legal action.

Lloyd's is confident it can head off the challenge, one of the last obstacles to securing the insurance market's future, and is expected to oppose an adjournment.

Meanwhile the British government has backed the Lloyd's plan by intervening in a US court case brought by rebel Names – the individuals whose assets have traditionally supported the Lloyd's insurance market.

US Names from several states are seeking to block the recovery plan in Virginia. The UK government has said in a legal submission to the court that the plan is the best practical solution to the market's problems.

Today's hearing in the High Court in London comes less than three weeks before the August 28 deadline for lossmaking and litigating Names to accept a £3.2bn ($4.96bn) out-of-court settlement which underpins the recovery plan.

The judicial review case has been brought by the 3,000-strong Paying Names' Action Group, representing those who have paid their bills and believe they are being disadvantaged compared with those who did not and are now having debts written off.

The hearing was expected to last three days with judgment soon afterwards.

Yesterday Mr John Abramson, for the group's solicitors Warner Cranston, said the group had money pledged for the action. "But physically all the funds have not arrived on the desks of the committee," he added.

The group blames the funding situation on postal strikes, holidays, and lack of time. Mr Abramson said the group had already covered most of the costs.

Mr Simon Morgan, speaking for the group, said: "The action is likely to be delayed by a day or so. It has not been abandoned. Funds are now coming through in considerable volume."

The group's strategy is seen as high-risk by some at Lloyd's because of the danger that success for the rebel Names could lead to the entire recovery plan collapsing – to the detriment of all Names.

In the US, the Virginia court was told by the UK government that the Department of Trade and Industry "has satisfied itself that the [recovery] proposals offer the most likely means of achieving a successful solution to the problem posed by the possible insolvency of Lloyd's Names. The department has been unable to identify any other method of proceeding which could produce a satisfactory outcome." The case is likely to be heard soon.

New blow for PFI as hospital plan postponed

By Mark Suzman, Social Affairs Correspondent

The government's beleaguered private finance initiative has received a fresh blow.

Plans for a £90m ($140m) hospital in the west of England are having to be revised due to funding problems and a study showing the project was unfeasible.

The rebuilding of the 530-bed Princess Margaret hospital in Swindon, one of the health department's flagship PFI projects, has had to be indefinitely postponed while the contractors look for a new greenfield site.

The news is another setback for the government which is trying to get at least one big PFI project – under which private companies design, build, finance and operate the buildings – up and running in the health sector before the Budget.

It follows reports that several big contractors have pulled out of health projects because of the expense and bureaucracy involved in the bidding process.

The first big hospital scheme to receive treasury approval, a £40m project in South Buckinghamshire, was announced last November and was originally due to start construction in the spring.

Since then the Swindon project and two other deals worth more than £30m have also been given the go-ahead but because of financial and legal concerns no contracts have yet been signed. Swindon and Marlborough trust had planned to construct a new hospital on the existing site of the Princess Margaret hospital.

The project, which had been praised by ministers because of the superiority of the PFI design to its public sector predecessor, was to be built over four years allowing parts of the existing hospital to be used while construction was under way.

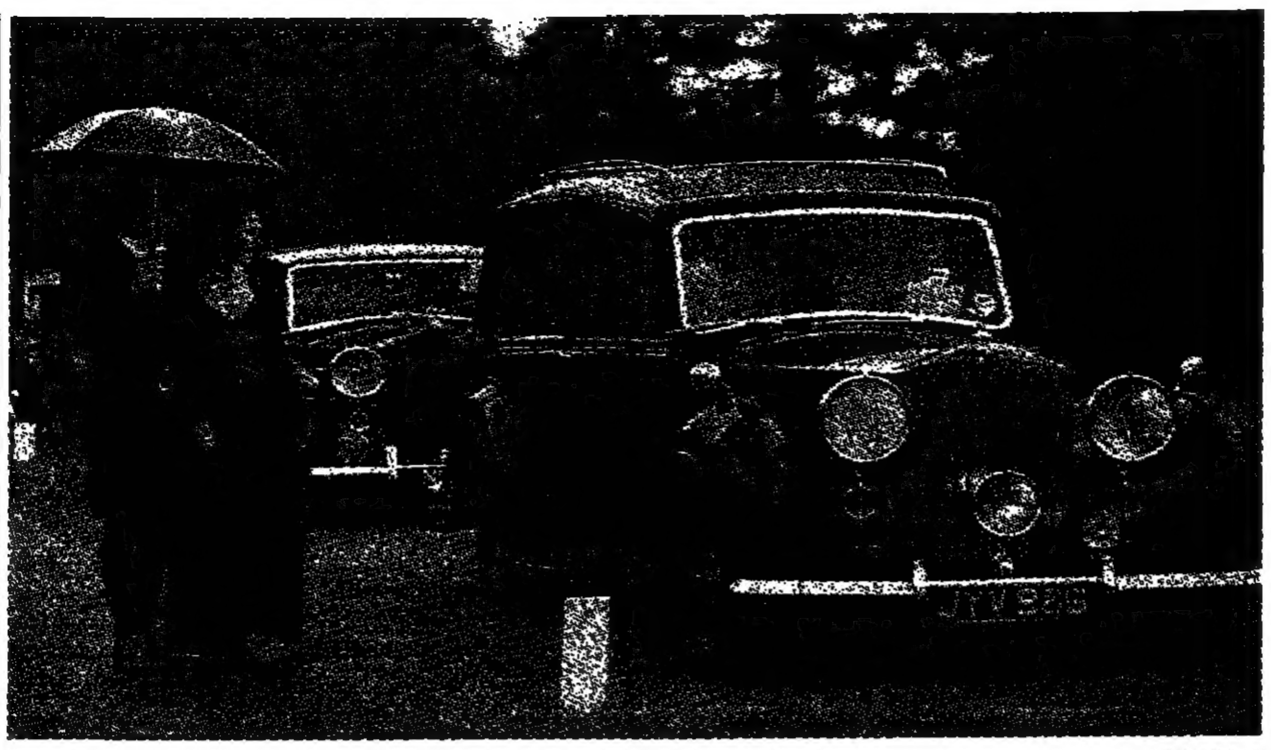
However, the combination of budget problems at Wiltshire health authority, the trust's chief funding agency, and a study revealing problems of access to the hospital have made the plan untenable.

As a result, the Hospital Company, the consortium led by Tarmac which will build and manage the hospital, has been forced to look for an alternative greenfield site. The trust said the number of beds on the site would be reduced to 480 to help cut costs.

A banker involved in the deal said the main problem was that the original project was too ambitious given the health authority's inability to guarantee sufficiently high revenue streams.

"The trust found that it couldn't meet the cost of paying for a hospital along its original specifications and Tarmac has had to engineer the project down accordingly," he said.

The Hospital Company said three alternative sites are under investigation and final selection should take place by next month.



Ashley Ashwood

Gothic choice: British funeral directors' yesterday held a vehicle rally at the national motor museum, Beaulieu, Hampshire

Curbs urged on water chiefs' pay

By Leyla Boulton, Environment Correspondent

Ofwat, the water industry regulator, wants institutional investors to demand curbs on the salaries and compensation packages of privatised water company executives.

Ms Dilys Plant, Ofwat's head of external relations, said: "What the customers think is important, and there is a lot of customer concern about these issues."

She said asset managers, the water industry's biggest investors, could have behind-the-scenes discussions with water companies and vote against proposals at shareholders' meetings.

Mr Ian Byatt, Ofwat's director-general, last raised the issue of executive pay and compensation at a meeting with analysts from institutions in January.

But Ms Plant said Ofwat had been disappointed by the response from institutions. "They are the only people who can do anything about this," she said. "There is nobody else to say whether these salaries are acceptable or not".

She welcomed protests at water company general meetings as a "start" but said institutional investors should "do more".

In the past month, shareholders have criticised United Utilities' long-term incentive scheme, Thames and South West's compensation packages for outgoing executives, and Yorkshire Water's £120,000 salary for a part-time chairman who lives in Kent.

But although Mr Byatt fears the outcry against so-called "fat cats" is denting public faith in the regulatory system, he does not believe he should regulate remuneration. "Deciding how much someone is worth takes you right into managing companies," Ms Plant said.

Ofwat is also investigating the possibility that companies may be investing less money than planned.

It will report its findings in October after scrutinising data submitted by water companies and management explanations for an apparent shortfall. Ofwat set companies' price limits for 10 years in 1994 but is expected to review these limits in 1999, in the light of companies' profits and investment to date.

Companies say it is too early to tell whether they are living up to investment plans spanning five to – 10 years because spending levels vary from year to year. But Ofwat is more wary about companies assurances after Yorkshire Water ran out of supplies last summer because it had been under-investing in its infrastructure.

Job cuts feared over farm reforms

By Deborah Hargreaves

Reform of the EU's common agricultural policy, which began in 1992, will lead to the loss of 5,400 farming jobs, 3.7 per cent of the total, in England over five years, the Rural Development Commission says.

Its report estimates the total number of jobs directly affected could be closer to 8,000 because of part-time and seasonal working.

CAP reform which reduces farm support prices and pays farmers to leave part of their land idle could affect overall up to 156,000 jobs in ancillary industries such as agrochemicals and food processing, the report estimates.

The loss of farm jobs is concentrated in the east of England where arable farming predominates. The large part of job losses – some 70 per cent – is estimated to be in East Anglia, the east Midlands and the south-east.

The agricultural job reductions come on top of a longer term trend of falling employment in farming as the industry has become more mechanised and made more use of agrochemicals. Farm employment has been falling at a rate of 2.7 per cent a year over the past decade down to the equivalent of 274,000 full-time jobs.

The report sets out a new way of estimating the employment effects of agricultural policy changes. Ms Margaret Clark, the commission's director of strategy, said she hoped it would help "to inform the debate on different options for agricultural policy".

The Employment Impact of Changing Agricultural Policy, Rural Development Commission, 141 Castle Street, Salisbury SP1 3TP. £17.

Electricity groups warned on gas supply

By Robert Corzine

Ofgas, the gas industry regulator, may take the regional electricity companies to the Monopolies and Mergers Commission if they make improper use of their customer databases to carve out positions in the gas market now being opened to competition.

There is increasing concern at Ofgas that the Recs, which have done little to prepare for the planned opening of the electricity market to competition in 1998, will have an unfair advantage over other gas suppliers in serving residential customers. This has been reinforced by a pilot project to test gas competition in the south-west, where Sweb, the local electricity company, is thought to have attracted more than half of the customers who have switched from British Gas.

"We don't want competition to mean that we just hand the market over to the sitting tenant," said Ofgas.

Other entrants to the domestic gas industry fear that regional duopolies could emerge with British Gas and the local Rec dominating the market.

The Recs have entered the gas business at a time when the electricity industry has been criticised for failing to take action to dismantle its regional monopolies. Offer, the industry regulator, last week reacted to government frustration at the slow pace of electricity reform and announced plans to push the process forward. But many gas industry executives doubt that the Recs will meet the 1998 target.

The gas industry, in contrast, has made substantial progress. In the south-west half a million domestic consumers can already choose their gas supplier. They will be joined by a further 1.5 million in southern England early next year.

Ofgas officials are to meet representatives from the Office of Fair Trading and the Data Protection Registrar to discuss ways of preventing the Recs from using their databases in ways they are not registered for. But Ofgas says it is prepared to take the issue to the MMC if there is no alternative way of solving the problem.

Many observers believe there are too few sanctions to prevent Recs from using the databases improperly. "The commercial advantage of doing so outweighs any punishment," complained one gas industry executive last week.

Electronic cattle tracking may cost £5m

By Deborah Hargreaves

The creation of an electronic database to monitor the movements of Britain's 11.5m cattle could cost the government between £3m ($4.65m)and £5m, according to a report revealed today..

The National Cattle Database working party, an influential group of farm and consumer interests, will call on the government to have all movements of new-born cattle included on computer records by the end of November. The rest of the national herd could be tracked by a nationwide census with the aim of listing all cattle on computer by January 1998.

The government agreed at the Florence heads of government summit to set up a national database as part of its commitment to tackling bovine spongiform encephalopathy – mad cow disease.

The idea is that it would offer a single point of access for many details on an animal's history.

"The whole thing has to be customer-led. The message which was very clear from consumer organisations in the working party is that they want cattle traceability and if we can't provide it, they will go elsewhere for their supplies," said Mr Bill Madders, a Staffordshire dairy farmer who chaired the working party.

The National Farmers' Union is keen to see details about beef assurance schemes included on the database. These would list farms free from BSE and point to herds which are raised non-intensively and are grass-fed.

In early August, the Ministry of Agriculture appointed a team of consultants to do a feasibility study. The consultants are due to complete their report in mid-September.

The working party wants the government to put the running of the database out to competitive tender.

As an interim measure the government introduced a system of passports for all animals born after July 1 – providing a paper trail to follow the cattle around.

But Mr Madders says passports should be phased out as soon as a computer system is developed. The industry will have to introduce electronic ear tags for cattle based on numbers which are easily recorded.

Sales and purchases could be recorded at auctions, with abattoirs registering deaths. Information could be available on demand.

UK NEWS DIGEST

Warning over on-line shopping

Efforts to develop electronic shopping are "floundering" for want of "much-needed impetus" to maximise its potential, Verdict, the retail consultancy, warns. "Electronic shopping will have no impact in the next five years and a minimal impact in the next 10 years," according to Mr Richard Perks, Verdict's senior retail analyst.

Verdict reports that on-line services are "unfriendly, cumbersome, painfully slow and inconvenient", and notes they have not been enthusiastically received by consumers. It says that Argos, the catalogue group, sold just 22 items on Barclaysquare, the UK's first "virtual" high street, in the first nine months of its operation.

The consultancy predicts that the UK electronic shopping market will rise from £42m to £55m this year but remain a fraction of the overall £6bn home shopping market and retail sales of £160bn.

Verdict is also bleak about the prospects for the broader home shopping market, including mail order. It notes that sales fell 2 per cent by value last year to £7.3bn – the first fall the market has seen since 1984. It says: "The direct mail order sector remains the most promising form of home shopping to provide growth into the next century. However, we believe it will have to become ever more sophisticated if it is to win the battle with shops for its share of retail sales." *Christopher Brown-Humes*

Verdict, 112 High Holborn, London WC1V 6JS. £795.

■ REDUNDANCIES

Job cuts 'harming businesses'

Redundancies leading to a decrease in the number of older, more experienced workers are harming UK businesses, according to two studies. As soon as redundancies are announced, workers who are keeping their jobs suffer a loss of motivation, a decline in morale and a decrease in productivity, says the Institute of Personnel and Development, which has issued a guide advising employers how to avoid the negative effect of job cuts.

Ms Angela Baron, institute policy adviser and author of the guide, says companies should integrate personnel management more thoroughly into their strategic plans to minimise the potential impact of future redundancies and increase alternative opportunities within the business for employees whose jobs disappear.

The IPD report is supported by a study from Roffey Park Management Institute, which says companies should be careful not to waste too much collective corporate experience in singling out older workers for redundancy. The widespread policy of replacing older and often more expensive employees is starting to leave holes in businesses, it says. *Amy Jeter*

The IPD guide on redundancy, IPD House, Camp Road, Wimbledon, SW19 4UX. £5.50. Audit Tool, A Strategy for Survival in the 21st century. The Employers Forum on Age, Astral House, 1268 London Road, London SW16 4ER.

■ ECONOMY

Property market upturn reported

Fresh indications of the brightening UK economic outlook emerge today with reports of an upturn in the property market – triggered partly by better consumer spending. A report from the Royal Institute of Chartered Surveyors shows growing optimism in the commercial property market and a shortage of shopping sites.

Meanwhile, a survey by DHL, the express carrier, reports that British exporters are more confident about long-term prospects. And the Chartered Institute of Marketing's latest quarterly report says the recent rise in consumer purchases is "a clear sign that consumer confidence is returning." Taken together, these surveys hint that the economy is set to pick up steadily in the run up to the next general election.

Many commentators think there will be a further boost from tax cuts in the Budget in November. Professor Douglas McWilliams, economist for the CIM, forecasts that income tax will be cut by 2p. However, consumer spending is likely to be fuelled by other factors: wages, for example, are likely to rise at a rate above inflation. Even before any tax cuts, these factors have left retail property developers in an upbeat mood. *Gillian Tett*

■ FINANCIAL SERVICES

Deal on intermediary banking

The Royal Bank of Scotland has launched a computer-based service that will enable life assurance companies or other financial intermediaries to provide banking facilities to their customers without having to obtain their own banking licence.

The bank has already signed a deal to provide the service to Friends Provident, the mutual life assurer, so it can launch its own deposit account for customers. The deal saves Friends Provident the cost and complexity of winning its own banking licence as other insurers, such as the Prudential, have set about doing.

The bank's service allows a life company, or another intermediary such as a solicitor or stockbroker, to operate client bank accounts with tailor-made cheque books bearing its own name as well as Royal Bank's. The intermediary can group deposits to attract money market rates of interest and pass these on to clients. *George Graham*

■ FASHION

Calvin Klein plans expansion

Calvin Klein, the US fashion designer, plans to expand into the UK and Ireland by opening two London stores next year with eight other openings scheduled in large cities, including Manchester and Dublin, by summer 1998. The stores, to be owned and operated by Collection Holdings, a company controlled by Ms Tricia Earl, wife of Mr Robert Earl, founder of the Planet Hollywood restaurant chain, will sell the Calvin Klein fashion collection, the cheaper Calvin Klein range and Calvin Klein Jeans.

The move is part of Mr Klein's international expansion. He will open stores in Seoul, Hong Kong and Jakarta this autumn, and a store in Milan next spring. He is one of a number of international designers strengthening their presence in the UK. Donna Karan, of the US, will open a flagship store on London's Bond Street this autumn, and Gianni Versace, the Italian designer, is to open a second Bond Street. *Alice Rawsthorn*

Officials play down minor disturbances after Protestant Apprentice Boys' parade in Londonderry

Northern Ireland's weekend of parades passes peacefully

By John Murray Brown in Belfast

Northern Ireland's weekend of parades ended peacefully yesterday, dispelling fears that it would be hit by the violence that has accompanied much of the summer marching season.

Several thousand republicans, supported by bands from as far as Glasgow, paraded through the streets of Belfast to City Hall to mark the 25th anniversary of the introduction of internment – detention without trial – in 1971.

In Londonderry last night, 18 people appeared in court charged in connection with disturbances early on Sunday morning, following the annual march of the Protestant Apprentice Boys through the centre of the largely Roman Catholic city.

The trouble was blamed on drunken youths who defied the pleas of Sinn Féin officials calling for calm. There were also outbreaks of violence in two isolated Catholic villages as Apprentice Boys returned from Saturday's Londonderry parade.

Security officials, leading churchmen and local politicians played down the disturbances, highlighting the weekend's relative peace after earlier fears of possible clashes between Apprentice Boys and nationalist protestors.

Mr John Hume, the SDLP leader and Londonderry MP, said: "It was a lesson that all parts of Northern Ireland should learn. "Dialogue is the only way forward."

Mrs Mary Nelis, a Sinn Féin councillor, said: "It's a small step, but I think it's a beginning."

The optimism was endorsed by visiting deputies of the Irish parliament who watched events from Butcher's Gate, the point of access from the old city to the hardline republican area of the Bogside.

With the Apprentice Boys indicating they will continue to talk with Bogside residents on future march plans, many residents hope that the weekend has established the importance of compromise, which could have a beneficial influence on the all-party talks on the future of Ulster which reconvene on September 9.

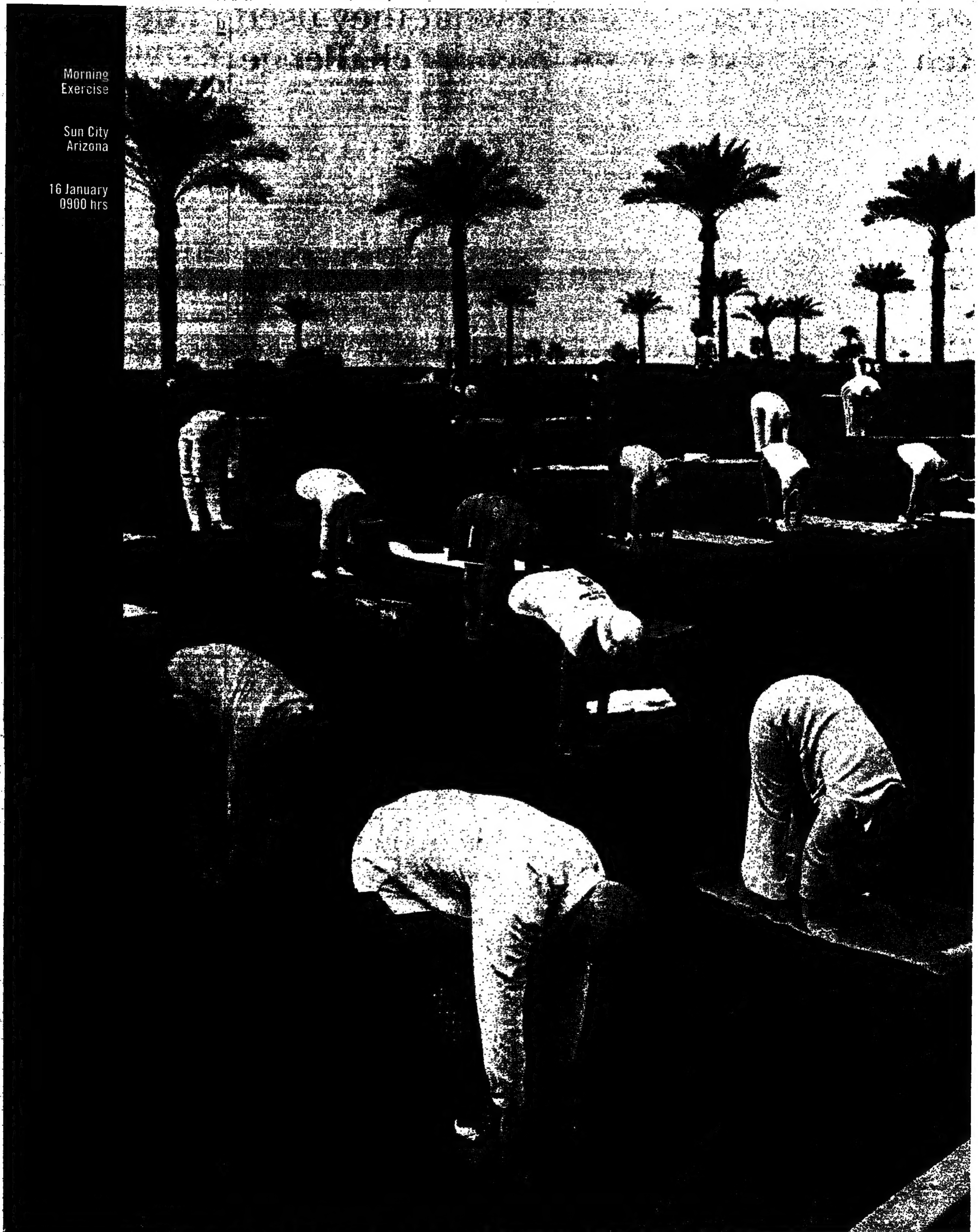
Saturday's parade was attended by a larger-than-usual number of bands, and watched by a smaller-than-usual crowd – a measure of the tensions that had overshadowed the event.

The procession included Protestant churchmen and youths displaying paramilitary insignia in a colourful and noisy display of protestant pageantry.

Mr Hume expressed the wish that parades will one day be little more contentious than a Mardi Gras in New Orleans. He said the behaviour of nationalists in the Bogside in staying at home on Saturday underlined that the vast bulk of the Catholic community did not seek confrontation.

At the Belfast rally, speakers included a representative of Noraid, the IRA's US fund-raising arm. Mr Gerry Adams, the Sinn Féin leader, said the dispute "hasn't been about marches. It's about triumphalism and trampling over people's rights."

صكنا من الاهل



THIS WEEK

Conventions ain't what they used to be

DATELINE

San Diego: America's political gatherings this year coincide with the month when the national mind is on the beach, writes Jurek Martin

For many days to come, the American political conventions will be inescapable. Thanks to the Olympics, they are unusually compressed into the month of August, when the national mind is normally on the beach, except when Iraq invades Kuwait and sand with oil underneath consumes attention.

Last night Ross Perot's Reform party held the first act of its maiden gathering in Long Beach, where the *Queen Mary* is now berthed. Today the Republicans get under way here 100 miles down the California coast, home of a great naval base, but a bit close to Mexico.

Next Sunday Perot Part II decamps to Valley Forge, Pennsylvania, where George Washington got the Continental Army into shape over the winter of 1777-78 to knock the socks off the British.

And two weeks from today the Democrats convene in Chicago for the first time since 1968, when they knocked the stuffing out of each other.

It should not be assumed that conventions are only held in cities with militaristic or patriotic reputations. Favourite sites over the years have been New York and San Francisco, whose delights and perversions are more of the flesh and mind, and Miami. Fans of good barbecue are always attracted to Kansas City, and of food and music combined to New Orleans.

Cities bid for the right to stage political conventions, because thousands of delegates and even more lobbyists and media have a habit of spending freely (though the bruising Atlanta has taken over the Olympics may give pause for thought).

Sometimes the selection reflects pure politics. Houston in 1992 was in one of the several states President George Bush claimed as home (another, Maine, is far too flinty and self-contained to want to accommodate the riff-raff) while San Diego is an act of contrition for the Republican party for writing off the largest state four years ago.

But, if truth be told, conventions ain't what they used to be.

Their prime purpose remains to choose the presidential ticket and agree on a policy platform, but nominees are now selected in earlier primaries and platforms usually forgotten by all but the noisy activists.

There is, therefore, no chance this month of a threat to the all-time record set in 1924 at the old Madison Square Garden in New York when it took the Democrats 17 days and 103 ballots to pick John W Davis of West Virginia, who then got walloped by the charismatically-challenged Calvin Coolidge.

Occasionally there has been a shadow of doubt over the nomination going into a convention. In 1952 Dwight Eisenhower needed to win two important battles in the Republican credentials committee before beating Robert Taft on the second ballot. Twenty years later, George McGovern had to go to the full Democratic convention to fight for which delegates could and could not be seated.

These and other disputes of mind boggling technicality, including the contested vote for a vice-presidential candidate, so stretched the proceedings that he accepted the nomination at prime evening viewing time only in Hawaii.

That was not an auspicious start to a campaign against Richard Nixon, whose own convention, also in Miami Beach, was scripted down to the last nanosecond.

A favourite ploy to compensate for the absence of real suspense centres on the choice of a running mate, only resolved over the weekend by Bob Dole with the selection of Jack Kemp. Candidate Nixon pulled off this neat trick with his unexpected choice of Spiro Agnew in 1968 and so did George Bush 20 years later when the "senator from Indiana" he was known to favour turned out to be not the respected greybeard Richard Lugar but the unheralded Dan Quayle.

Conventions can still get a bit rowdy, as when Pat Buchanan declared "cultural and religious war" on all liberals in Houston four years ago.

But that incident, the result of mis-management by the Bush campaign, was a pale shadow of earlier spontaneous (or planned) uprisings, notably the Goldwater troops booing throughout Nelson Rockefeller's speech on the virtues of moderation at the 1964 Republican convention at the aptly named Cow Palace in San Francisco.

Chicago in 1968 was pure mayhem. Less well remembered is the fact that both conventions in Miami Beach in 1972 were marked by a fair amount of anti-war street violence. This was when your correspondent learned that picking up a tear gas canister on the bounce and throwing it away, though a feat of much dexterity, was also foolhardy for anybody with an average arm.

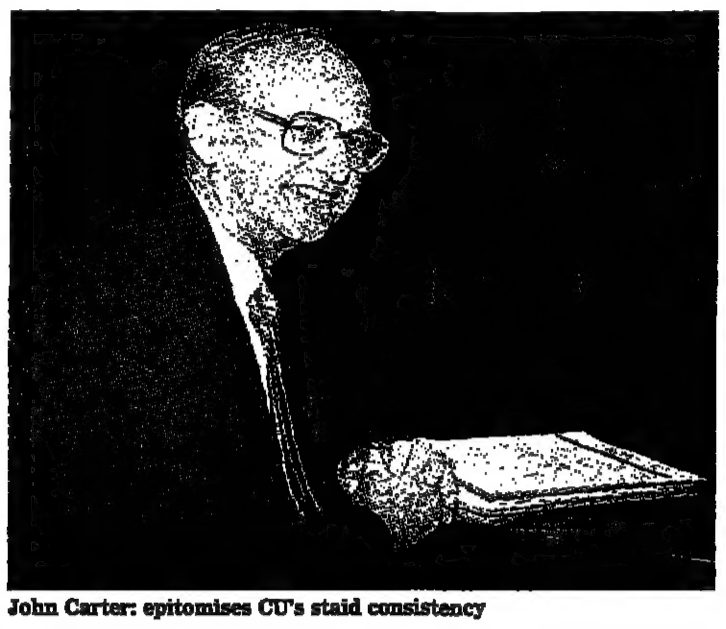
Occasionally, political reputations can be made at a convention, but the harbinger is unreliable.

Mario Cuomo delivered an immortal keynote speech to the Democrats in San Francisco in 1984 but never got beyond pondering running for president, while Bill Clinton droned on interminably in 1988 and look where he is now.

Still, the political lure is there. Even Marion Barry, the mayor of Washington, DC, is coming to San Diego, although the city, which has just been forced to close six more schools, probably cannot afford the airfare. He is not a Republican – at least not yet – but then neither, in the beginning, was Ronald Reagan.

In focus: **John Carter, Commercial Union**

An unflappable strategist



John Carter: epitomises CU's staid consistency

Step out of the futuristic City headquarters of Lloyd's of London. Cross the street. Take the lift to the top of the taller but much less pretentious building opposite. Enter the office of John Carter – and see a different view of the insurance world.

The chief executive of Commercial Union, one of the UK's biggest "composite" insurance groups, combining life assurance and general insurance, may have a far lower profile than his rivals at Lloyd's. Some insurance analysts believe he sees consistency and unflappability as the hallmarks of a solidly reliable financial services provider. "CU has turned boring into part of the corporate ethos," says one.

Yet CU – bigger than Lloyd's, measured by premium income – has carved a distinct strategy. It is not in the same league as Europe's biggest insurers: Germany's Allianz or Switzerland's Zurich Insurance. But as others have struggled over the past decade, CU has become among the most sure-footed in the UK.

The latest example of this trend came last week when, with little fanfare, Carter revealed that CU's Polish life operations, established only in 1992, had become the group's third largest producer of new annual premium life business in the first half of this year. More dramatically, CU Polska accounts for about 45 per cent of life assurance policies sold to individuals in Poland.

CU has set expanding life operations internationally as a priority. Building on its Polish success, it is considering similar ventures in Russia and the Czech Republic and possibly the Ukraine – territories eschewed by other western insurers because of political risks.

In Britain, CU has stuck to the other plank of its strategy: controlling tightly general insurance activities and playing the volatile underwriting cycle. As UK private motor rates tumbled over the past two years, for example, CU held firm, lost a lot of customers – but continued to make a profit on the book.

When rivals Royal Insurance and Sun Alliance announced plans earlier this year to merge, leapfrogging to the top of the UK composite insurers' league table, CU saw no reason to change tack. *Beforehand*, Carter had played down the scope for economies of scale in insurance. Unlike banks there are no large high street networks to lop. Last week, Carter was still hinting strongly that if consolidation was the trend in the UK, CU would stand aside.

CU's strategy dates from the mid-1980s when Carter's predecessor, Tony Brend, became chief executive. Brend was credited with resolving many of the group's earlier US problems – caused largely by exposure to "long-tail" risks such as asbestos and pollution – which had produced a succession of losses for the group and turned CU into the industry's fallen star.

But Carter was closely involved in the group's rejuvenation. He became a main-board director in 1987 and since 1989 has had responsibility for expanding international life businesses. More importantly, he was part of the senior management triumvirate, also including Brend and Tony Wyand, then responsible for finance and investments.

Moreover, 58-year-old Carter, by character, epitomises CU's staid consistency. An Oxford mathematician, he joined the group in 1961, qualified as an actuary and has stuck with the group ever since, assuming the top job from January 1994. Colleagues say he is approachable but unassuming, travelling to work on the Metropolitan Tube line from his home in John Betjeman's Metroland, rather than using the chief executive's car.

In an early role, as general manager of CU's UK division in the early 1980s, he was credited with introducing a degree of professionalism unfamiliar to insurers brought up in a post-war atmosphere of sleepy bureaucracy. Management information and performance monitoring were improved.

A more recent achievement was his role in CU's £1.5bn acquisition of French insurer Groupe Victoire two years ago. So far the deal, financed largely by a rights issue and increasing CU's exposure to the French property market, has weighed down the group's shares. But the longer-term aim was to boost CU's international ambitions, particularly in life.

If the deal proves successful, much of the credit will be Tony Wyand's – Carter's dapper colleague who remains part of CU's executive team and is in charge of Groupe Victoire's integration. But CU insiders say Carter's role in the deal and overseeing the merger should not be understated.

What will be his next move? If another big acquisition is in the pipeline, it is likely to be overseas. Besides eastern Europe, Asia is a target, although low-cost start ups may be as good. CU is angling for a licence to operate in China, where its long-term consistency may yet mean it pips Royal & Sun Alliance for a chance to operate in the potentially vast Chinese market.

Meanwhile, Carter is spreading his influence. Last summer he became chairman of the Association of British Insurers, the UK industry's trade association. That has given him a role in shaping the debate on privatising the welfare state and on the future of the London insurance market. It is unlikely to go to his head.

Ralph Atkins

FT GUIDE TO

SPACE RESEARCH

What is the point of exploring space?
It has brought us cheaper international telecommunications, satellite television, better weather forecasting, Teflon and Velcro. (The last two were developed for the US space programme).

Did we need to go to all the way to the moon to do that?
Listen, all of us are in the gutter and more of us should be looking at the stars. People feel good when great things are achieved. Space travel is like the Olympics without humidity or sponsorship.

There's a good idea. What about a Coca-Cola rocket or an AT&T shuttle?
It's been thought of before but tried rarely. Perhaps a rocket that exploded would do serious collateral damage to a nearby brand.

So how much does space exploration cost?
In the US, Nasa wants to spend $13.8bn (£8.8bn) next year and the European Space Agency about $3bn. Those figures are just for one year. The official cost of Nasa's space station alone is about $17bn, but the total by the time it is ready in 2002 is likely to be more than double that. Japan, Russia, China, India, Brazil and others all have space programmes. On top of that there are private sector efforts, mostly in telecommunications.

Why does it cost so much?
Rockets take years to build. They are hand-made. Except for the Shuttle they are used once and thrown away. Giant fuel tanks generate controlled explosions to hoist tens of tonnes of metal to between 200 and many million of miles up. The electronics and mechanics in a satellite or probe are built to survive in the vacuum of space. They draw power from the sun with huge fold-out solar panels and beam information back home from wherever they are. Projects at Nasa alone include research into aeronautics, X-ray *astronomy, life* sciences and the international microgravity laboratory. It's cheap, really. The Apollo programme, which put men on the moon, cost $25bn – more than $100bn in today's money. President Ronald Reagan's Star Wars space defence scheme would have cost about the same.

Are you saying that today's space programmes are a bargain?
The last men to walk on the moon were Eugene Cernan and Harrison (Jack) Schmitt, the crew of Apollo 17, in December 1972. *Star Wars* is just a 1970s blockbuster movie again. Since the glory days of the cold war, space agencies have had to learn something about cost control and budgets. There have been cutbacks at Nasa, and the planners know it is easier to persuade governments to pay for projects whose aims are close to home, such as weather and mapping, than to push back the final frontier.

But now they're going to spend trillions to send some guys to Mars?
Not quite yet. The discovery of what look like fossils in what seems to be Mars rock will rekindle interest in the red planet. Probes are due to be sent to Mars later this year to conduct experiments. What the scientists working on Mars rock really want is a probe to return with samples. That hasn't happened yet because of the difficulty and cost of getting something to Mars that is big enough to take off again and return home.

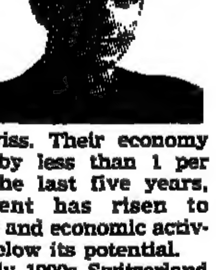
Why is that so difficult? We did it with the moon.
First, it is a lot further. Even at their closest, Earth and Mars are 40m km apart. The moon is only 400,000 km away. Second, the gravitational pull on Mars is more than twice that of the moon's and there is an atmosphere to slow down a takeoff, too.

Sounds like getting there and back even without people is going to be extremely costly.
A probe is planned for 2005, but Nasa would love to have more money before then for Mars research. The way to get it, it said last week, was to persuade people to write to their congresspeople demanding that more money be put into space.

If Mars is that difficult, is there any chance of going to the stars?
There are some earthbound experiments underway to try to detect planets orbiting other stars. It's not lack of money that's preventing trips, manned or otherwise. Stars are so far away it would take thousands of years to get there with today's technology. If the technology is improved, physics gets in the way: the theory of relativity says nothing can go faster than light, and light takes four years to get to the nearest star.

When will we be able to step into space ourselves, to see what the view's like from there?
There are plenty of ideas for space tourism. One is a helicopter that would fly to the edge of the atmosphere, where rockets would blast it into near-space. Another: a Japanese/American partnership has unveiled plans for an orbiting holiday resort. Mod cons include artificial gravity. They want it to open by 2020.

Daniel Green



Robert Chote • Economics Notebook

Swiss pay for safe-haven status

Switzerland's predicament highlights doubts about the euro

Pity the Swiss. Their economy has grown by less than 1 per cent over the last five years, unemployment has risen to record levels and economic activity is well below its potential.

In the early 1990s Switzerland endured its longest recession since the second world war and since then its recovery has been cruelly stifled by the strength of its currency. Even the Swiss National Bank says the Swiss franc is "massively overvalued".

Its frustration is understandable. The over-valuation in large part reflects fears among investors in Germany and elsewhere that the putative single European currency will be an inferior substitute for the tried and tested D-mark. With the German currency under threat of abolition, the Swiss franc is the obvious "safe haven".

But do investors really need a safe haven? The Maastricht treaty assures us that the European central bank will, like the Bundesbank, be independent of political control and devoted above all to the achievement of price stability. Germany insists it will have no truck with the "euro" unless it promises to be at least as strong as the D-mark.

Nonetheless, investors are right to be worried. The people responsible for setting interest rates in the ECB – the governors of the participating national central banks – may be free of political interference and devoted to their calling, but with the best will in the world they may be unable to achieve their aims: the biggest threat to price stability early in monetary union will be cock-up, not conspiracy.

Consider the practical task which the ECB will face. Like most central banks it will set short-term interest rates in order to safeguard price stability as best it can. Changes in borrowing costs take time to affect economic activity and prices, so policy has to be set in a forward looking manner using formal or informal inflation targets.

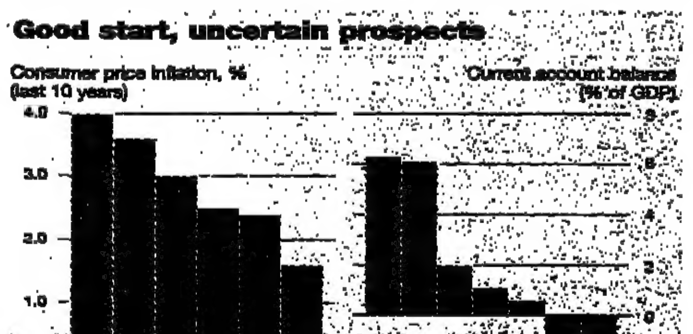
The experience of national central banks shows how difficult this is. In the UK the authorities target inflation directly, using a variety of economic indicators for guidance.

The pitfalls are numerous and familiar. Economic statistics are unreliable and subject to revision. The Bank of England, for example, recommended a rise in UK interest rates in May 1995 prompted by an estimate of strong economic growth which was subsequently halved.

Even if the statistics are reliable, neither the relationships between them nor how they are affected by policy measures are set in stone. Changes in the degree of competition within an industry can, for example, affect the speed at which changes in raw material or import costs are passed on to consumers.

These problems make interest rate setting hazardous in a national economy, but they will turn it into little more than semi-educated guesswork in the early years of monetary union.

Even if the "euro-area" is confined to a relatively modest core this will be a large and diverse economy comprising different patterns of economic activity and consumer and business behaviour. It will take years for policymakers to develop a feel for the way in which their new vessel responds to a nudge on the policy tiller.



Lack of experience in setting the interest rate for this new economic entity makes the quality of euro-wide statistical information all the more important. The European Monetary Institute and Eurostat, the European statistical agency, are working hard, but their task is enormous. They have to reconcile incompatible definitions, methodologies and collection systems.

There are signs – for example in the construction of common inflation measures – that comprehensive coverage is being sacrificed in favour of a lowest common denominator approach in which too many price categories will be omitted.

And this is nothing compared to the task of deriving a reliable, timely and consistent measure of economic activity across the euro-area.

Germany argues that euro-area inflation should be targeted via an intermediate money supply target. As Bundesbank president Hans Tietmeyer explained to an audience in South Africa earlier this year: "It would appear sensible to adopt tried and tested methods so as, perhaps, to inherit some of the credibility of those central banks which are particularly successful today. The monetary growth trend is a timely indicator of the emergence or abatement of inflationary pressures."

But the nature and timeliness of the relationship between "euro-M3" and euro-inflation may take years to discover.

The Bundesbank is anyway disingenuous in arguing that a money supply target would lend credibility to the ECB by creating it in its own image.

The Bundesbank is covertly pragmatic. It enjoys credibility not because it sticks to its money supply targets, but because its track record in achieving low inflation over many years reassures investors that it can safely ignore its own rules whenever common sense dictates.

Getting the nitty-gritty of monetary policy right is a transitional problem. Interest rate setting should improve with practice, but as Barry Eichengreen at Berkeley pointed out in a recent lecture, mistakes in the early years may impose a heavy cost.

The ECB may begin its life in a virtuous equilibrium, with people taking its commitment to price stability on trust.

But if a well-meaning policy mistake were to push inflation above a certain level, then pressure groups might well conclude that the ECB was not committed to price stability and start lobbying for expansionary policies. With no track-record for the ECB to fall back on, this conclusion might easily prove self-fulfilling.

"With time, the ECB may acquire a reputation for pursuing stable and desirable policies and may earn the respect of its constituents. A newly established central bank for which the commitment to price stability and insulation from political pressures are not yet clearly established may never have a chance".

With this in mind, the Swiss franc may suffer safe-haven status for a good while yet.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 11.08.96: Pool purchase price £/MWh	Final Prices for Trading on 14.07.96: Pool purchase price £/MWh	Pool selling price £/MWh
0030	9.01	8.92	10.42
0100	9.02	7.00	8.50
0130	8.99	8.90	8.90
0200	8.99	8.88	8.88
0230	8.99	8.88	8.88
0300	8.99	8.88	8.88
0330	8.99	8.88	8.88
0400	8.99	8.88	8.88
0430	8.99	8.88	8.88
0500	8.99	8.88	8.88
0530	9.00	8.87	8.87
0600	8.99	8.87	8.87
0630	8.99	8.86	8.86
0700	8.99	8.88	8.88
0730	9.00	8.89	8.89
0800	8.89	8.90	8.90
0830	8.89	9.02	10.52
0900	13.23	13.63	15.13
0930	13.39	13.63	15.13
1000	15.72	13.63	15.13
1030	14.92	16.07	17.57
1100	15.72	19.88	21.37
1130	18.04	21.40	22.90
1200	18.89	21.40	22.90
1230	18.89	21.40	22.90
1300	18.89	21.40	22.90
1330	18.89	19.49	20.99
1400	15.72	19.88	21.37
1430	14.92	17.03	18.53
1500	14.92	17.03	18.53
1530	13.39	17.03	18.53
1600	9.02	12.74	14.24
1630	9.02	12.74	14.24
1700	13.39	12.74	14.24
1730	14.92	17.03	18.53
1800	14.92	17.03	18.53
1830	14.92	17.03	18.53
1900	14.92	12.74	14.24
1930	9.02	12.74	14.24
2000	9.02	12.74	14.24
2030	9.02	17.03	18.53
2100	14.92	17.03	18.53
2130	21.63	17.03	18.53
2200	21.63	20.31	21.80
2230	21.63	29.21	30.71
2300	14.32	29.21	30.71
2330	13.29	19.33	20.83
2400	8.99	18.33	19.83

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.68/MWh becomes 1.668p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8:30am and 5:15pm Monday to Friday.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 12.08.96: Pool purchase price £/MWh	Final Prices for Trading on 15.07.96: Pool purchase price £/MWh	Pool selling price £/MWh
0030	9.02	8.92	10.24
0100	8.99	7.00	8.32
0130	8.99	7.00	8.32
0200	8.99	7.00	8.32
0230	8.99	7.00	8.32
0300	8.99	7.00	8.32
0330	8.99	7.00	8.32
0400	8.99	7.00	8.32
0430	8.99	7.00	8.32
0500	8.96	7.00	8.32
0530	8.85	8.92	8.92
0600	8.87	8.91	8.91
0630	9.01	8.95	8.95
0700	9.02	15.94	17.27
0730	13.53	17.57	18.91
0800	17.72	17.83	19.35
0830	21.55	19.72	21.58
0900	22.31	22.53	25.13
0930	23.43	27.15	30.70
1000	24.41	30.82	35.13
1030	25.10	40.08	44.61
1100	25.64	41.39	48.35
1130	26.37	56.34	61.99
1200	26.83	64.42	70.58
1230	26.30	63.66	69.90
1300	25.14	60.15	65.46
1330	23.71	40.34	44.60
1400	19.72	29.30	33.23
1430	19.32	35.24	38.82
1500	19.12	34.75	38.20
1530	19.04	40.68	44.00
1600	19.27	42.27	46.02
1630	19.80	51.57	56.01
1700	39.62	52.63	57.25
1730	39.26	48.56	53.41
1800	38.49	44.62	47.18
1830	19.13	20.33	21.98
1900	18.09	17.44	18.80
1930	18.70	17.39	18.73
2000	18.69	16.67	17.99
2030	9.08	16.67	17.99
2100	25.73	16.29	17.61
2130	26.92	19.08	20.95
2200	25.62	22.54	23.87
2230	25.90	37.46	38.80
2300	13.93	37.47	38.80
2330	13.23	16.67	17.99
2400	13.07	16.29	17.61

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.68/MWh becomes 1.668p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8:30am and 5:15pm Monday to Friday.

©Energy Settlements and Information Services Limited

FINANCIAL TIMES
COMPANIES & MARKETS
© THE FINANCIAL TIMES LIMITED 1996

Monday August 12 1996

BP wants to speed up Mobil alliance

By Robert Corzine in London

British Petroleum wants to speed up the planned merger of much of its European downstream assets with those of the US's Mobil, in a move that will rekindle speculation about whether the two will merge completely.

The $5bn deal to combine the two oil groups' refining and marketing assets in Europe received the go-ahead from the European Commission last week. The official timetable envisages that all individual country partnerships will be in place by the end of next year. But senior BP executives want to accelerate the process to see how effectively the two groups can operate under pressure.

No new deadline has been set, but some executives believe the merger could be completed within a year.

They conceded that accelerating the process could cause problems. But said they were willing to risk mistakes in order to test the ability of the two corporate cultures to work together.

BP and Mobil are in the forefront of industry trends such as cost-cutting and restructuring. Both are near the top of the industry for return on capital employed, the key measure by which the big integrated oil groups judge performance.

Extensive planning has taken place since the merger was announced in February, and candidates to fill the main executive positions in the new structure have been identified. But the two sides have had to await EU approval and country approval in some non-EU states.

Under the arrangement, BP will focus on the fuels side of the combined business, with a 70 per cent interest in the refining and marketing of fuel products. Mobil will concentrate on lubricants, and have a 51 per cent stake in that sector.

About 9,000 service stations will be affected by the merger. All will be rebranded in BP's green and yellow livery, although they will feature a combined BP/Mobil logo. The combined company is expected to have about 12 per cent of the market in Europe, which will put it alongside Exxon of the US and Royal Dutch/Shell.

About 3,000 jobs are expected to go as a result of economies of scale and the elimination of overlaps. The partnership is expected to result in annual cost savings of $400m-$500m by 1998.

There has been speculation about whether the two companies might embark on a broader combination, which would result in a company similar in size to Royal Dutch/Shell and Exxon, the two largest western oil companies. No decision has been made, say executives. The performance of the European downstream merger over the next year will be a big factor in determining whether a more ambitious combination is warranted.

Lex, Page 18

Pifco turns up heat in kettle market

By David Blackwell in London

Pifco Holdings, the small UK electrical appliance maker, has beaten larger rivals such as Philips of the Netherlands and Moulinex of France to the market with a flat heating element for kettles.

The UK company will announce tomorrow that kettles using the flat element, which will be heavily patented, will be on sale from next month. The element uses three kilowatts of electricity, compared with the conventional 2.2kW, and is able to boil water almost twice as quickly.

"We believe this is a world first, and we are at least six to 12 months ahead of the competition," said Mr Michael Webber, chairman.

Pifco will sell the plastic jug kettles at just under £40 for the cordless and £30 for the corded version under its premium Russell Hobbs brand.

The element, at the bottom of the kettle, is printed in silver on to a layer of glass ceramic ink on a steel plate, and passed slowly through a furnace at varied temperatures. It is then covered with another layer of glass ceramic ink.

"The manufacturing process is simple, consistent and reliable," said Mr Webber. "It is the design of the printed element that is quite complicated, and the procedures in the furnace are very sophisticated."

The group's medium-term aim is to make up to 10,000 kettles a week. But Mr Webber believes the flat-element technology will be in far greater demand as its use widens to other appliances.


Pifco's flat element kettle

The design has been in development for more than two years. Mr Webber will admit only to an investment cost "in seven figures".

The nearest rival appears to be Deeman, based in Winsford, Cheshire, which is planning a plant to make flat heating elements using techniques borrowed from powder metallurgy and high-tech steelmaking. The company has recently won a £500,000 ($780,000) investment from 3i, the UK venture capital group, but last week Mr Jeffery Boardman, technical director, said it would be a year before kettles using his technology would be in shops.

Pifco will announce annual results tomorrow. Analysts are expecting pre-tax profits of about £3m, up from £2.65m for the year to April 30 1995, when sales were £36.8m.

US commercial banks are awaiting a rule-change that could spark links with stockbrokers

Talk of mergers is in the air

It may be a muted starting gun, but it is about to go off nonetheless.

The prospect of mergers between commercial banks and stockbrokers in the US will become more likely if the Federal Reserve moves ahead with a proposal to loosen the restrictions on banks' ability to trade and underwrite shares and bonds, according to US merger advisers and banking industry lawyers.

The result may be only a faint echo of London's Big Bang reforms of the mid-1980s, which touched off a rush among banks to buy London's leading brokers. But it could, nevertheless, lead to a round of smaller deals which together lift the standing of some of the commercial banks – both American and European – that want to play a more prominent role in the world's biggest capital markets.

According to one US dealmaker, who refused to be named: "Everyone's going to have a look. It's too an important an opportunity (to miss)."

The event triggering this round of interest was the Fed's announcement at the end of July that it was considering easing the restrictions on banks' securities operations, which must be carried out through separate companies known as Section 20 subsidiaries.

Since 1989, these subsidiaries have been allowed to generate only 10 per cent of their revenues from what are known as ineligible activities – essentially underwriting securities issues and trading corporate bonds and equities. Now, in a proposal which is open for comment until the end of September, the Fed is proposing to lift the revenue ceiling to 25 per cent.

Under that higher limit, even some of the biggest US stockbrokers could, in theory, be brought under the wing of a commercial bank, a Federal Reserve official comments. And although few expect that to happen, there is likely to be a renewed round of informal talks involving some of the smaller stockbrokers which have been the subject of interest from banks in the past.

These firms are known collectively as the Major Bracket, a term intended to distinguish them from the Bulge Bracket group of half a dozen or so firms which dominate the US securities underwriting and merger advisory business. Some of its members – including Donaldson Lufkin & Jenrette and Oppenheimer – have been on the receiving end of merger approaches before.

If deals are to follow, they may be more likely to come from European banks than from the Americans. As one New York merger adviser points out, the three biggest Swiss banking groups (UBS, Swiss Bank Corp and Credit Suisse) and the two biggest German institutions (Deutsche and Dresdner) have used acquisitions to build their investment banking businesses in London. The same is true of Barclays and NatWest of the UK, which have expressed interest in buying their way to a bigger presence in US capital markets.

Even under the Fed's current restrictions, some Europeans have already set about making acquisitions. ABN Amro, which has a commanding share of the banking market in and around Chicago, recently agreed to buy Chicago Corp, one of the Windy City's biggest regional brokers. NatWest, having shed its US retail bank, has bought a merger advisory boutique and a big trader of government bonds (a business in which banks are not restricted).

Others have positioned themselves to make further purchases, if necessary. Both Deutsche Bank and Swiss Bank Corp recently switched the regulatory status of their securities businesses, opting to set up Section 20 subsidiaries. Their previous operations were not permitted to expand through acquisition.

SBC made the switch to be able to absorb O'Connor, a derivatives trader, while Deutsche wanted to integrate Morgan Grenfell's US operations.

Among many homegrown banks, on the other hand, the appetite for big acquisitions in the securities and investment banking business has waned. The ranks of the traditional money centre banks have thinned through merger. Others, including Citicorp, have explicitly set their faces against trying to take on the big investment banks. The memory still lingers of the losses suffered from venturing into London's stock market at the time of Big Bang.

Of the handful of large US banks with ambitions to combine both lending and securities businesses, only J.P. Morgan has made real headway in breaking into Wall Street's traditionally closed markets. That leaves at least three – Chase Manhattan, BankAmerica and NationsBank – with the ambition and the scale to mount an acquisition, making them the most frequently talked of as acquirers. All three have welcomed the Fed's proposal to relax its restrictions, but none has revealed how it plans to expand its own securities operations.

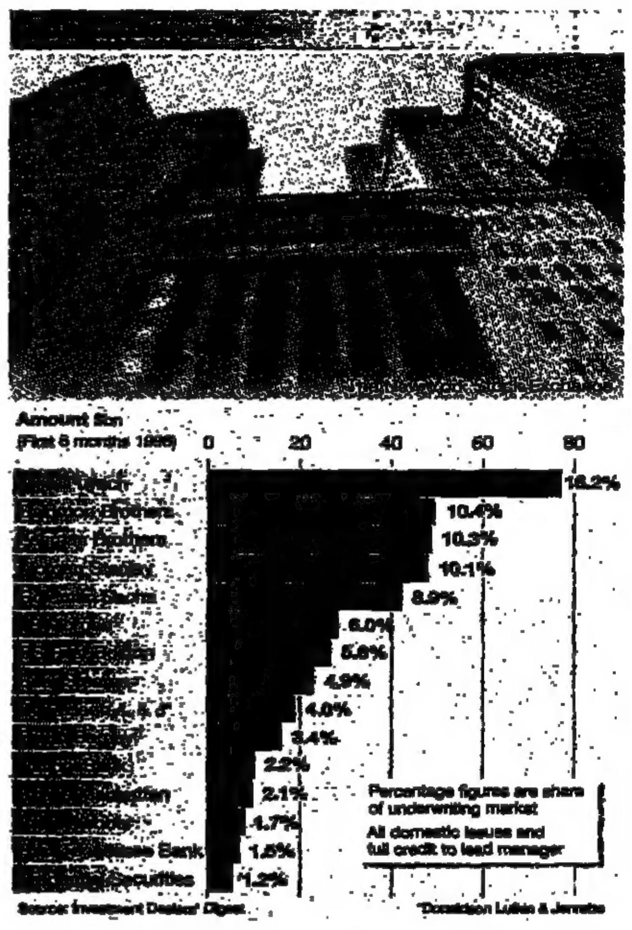
There is at least a chance, meanwhile, that the Fed's proposals will not go through in their current form. Protests from investment banks, which will not be given any reciprocal rights to enter the banking business, could be enough to prompt pressure from senior congressional leaders, says one Washington lawyer with long experience of this particular turf war. The banking industry most fears the reaction of Mr Alfonse D'Amato, chairman of the Senate's banking committee, who remained studiously uncommitted during a failed attempt to get a banking reform bill through Congress earlier this year.

It is also the case that the Fed's changes, if adopted, would not give banks the sort of flexibility most say they want to be able to run a combined lending and securities business. The Fed has proposed three relaxations to the so-called "firewalls" that separate banking and securities subsidiaries, letting them sell assets to each other and share executives. That is a far cry from the European model of universal banking so envied in many US bank boardrooms.

"The Europeans have shown you can conduct it [investment and commercial banking] in a single entity," says one bank's senior legal officer in New York. "With proper controls, there is no reason why a bank here could not be like a universal bank in Switzerland or Germany." However, no one expects a policy shift of this magnitude in the foreseeable future.

Despite this, the Fed's proposals would still represent a big step towards opening up securities markets to commercial banks. Against that background, it seems likely that talk of mergers will be in the air this autumn.

Richard Waters



Source: Investment Dealers' Digest
*Donaldson Lufkin & Jenrette

INSIDE

Belgacom
Belgacom, the partially-privatised Belgian telecommunications group, increased first-half net profits 15 per cent to BFr6.6bn ($216.5m). The results will be a lift for Ameritech, the US telecoms company, Tele Danmark and Singapore Telecom, which own a 49.9 per cent stake.
Page 21

Länder bond issue
Pricing will today take place of the DM4bn ($2.7bn) jumbo bond issue by seven German states (Länder). It will run for 10 years and carry a 6.25 per cent coupon, yielding 17 basis points more than the comparable government bond.
Page 21; Bond markets, Page 23-24

Skynet
Skynet, the UK satellite vehicle-tracking group, has put on hold its intention to transfer trading in its shares from Ofex to Aim today. The postponement follows news of "an informal review" of dealings in Skynet shares by the Securities and Futures Authority.
Page 20

Fund Management
In-house company analysts who work for fund managers that own shares may only earn half or a third as much as their sought-after counterparts employed by stockbrokers. But they are gaining in number and clout. Page 20; Funds more bullish on UK, Page 20

Global Investor
The rise and partial fall of the high-technology sector have diverted attention from a more everyday truth – investors are highly sensitive at the moment to individual economies' prospects of stable, surprise-free growth. Page 22

Inspec share scheme under fire

By William Lewis in London

The proposal by Inspec, the former BP Chemicals company, to allow directors and staff to turn their rights issue share entitlements into share options is being questioned by institutional shareholders.

The proposal, which could affect up to 8 per cent of Inspec's shares, was last week described by one institutional investor as "very odd and not the sort of thing that should be encouraged". Inspec said last week it had been contacted by the Association of British Insurers to explain the scheme.

The group is seeking authorisation at an extraordinary general meeting on August 21 to lend money to a trust, Musley Limited, which will subscribe for employee shareholders' rights issue shares. The company will be reimbursed when employees exercise their options or the shares are sold into the market.

At the meeting Inspec wants shareholders to approve its £200.5m ($311m) acquisition of Shell's Fine Chemicals arm and to approve the enlargement of the share capital to accommodate a 1-for-2 £101.5m rights issue. As part of the issue, Inspec wants approval for a new employee share scheme and for an amendment to its 1995 share scheme to allow participants to be granted options over the same number of rights issue shares as their scheme entitlement.

Directors, who own about 13 per cent of Inspec, and staff, with about 2 per cent, may exercise the options over the next three years if earnings per share grow at least 10 per cent a year. Certain members of employee shareholders' families will also be able to participate.

"It enables companies with fairly high employee and director share ownership to benefit from driving the company forward when they are not in a position to raise the cash to participate in the rights issue," Mr Gary Corsi, finance director and company secretary, said.

Institutional shareholders argue that employee shareholders should sell their right to participate in the issue into the market rather than be granted share options. Manifest, the proxy voting agency, asks in its EGM report: "Could it possibly be in the interests of all shareholders that employees of the company and certain members of their immediate families should be entitled to benefit from the rights issue in a risk-free manner such as this, whilst non-employee shareholders who opt to take up their rights have no choice but to bear the consequent risk?"

However, Pirc, the corporate governance consultancy, is advising its institutional clients to vote for the proposal. "The proposed new scheme encourages widespread employee participation in the success of the company through ownership of its shares," Pirc's EGM report says.

Lex, Page 18

COMPANIES IN THIS ISSUE

Sainsbury starts to reap the reward of loyalty card

By Chris Brown-Humes in London

J. Sainsbury, the supermarket group, has begun to rebuild its market position, helped by the June launch of its loyalty card.

Its market share has risen progressively from 20.1 per cent in May to 20.6 per cent in June and 21.1 per cent in July, according to Audits of Great Britain (AGB).

Tesco, its main rival, has seen its share slip from 22.8 per cent in June to 22.0 per cent in July, although it retains market leadership.

The trend is a welcome development for Sainsbury which last year suffered its first fall in profits for 22 years and is felt to have lagged behind its more innovative and dynamic rivals.

Some analysts believe it is the start of a wider recovery at the group following management changes and investments. Mr Bill Currie, food retail analyst at Charterhouse Tilney, said: "The company looks like it's got through the worst. The market share figures are quite encouraging. There's evidence that they are starting to benefit from firm management, sharper marketing and stores' looking better."

Sainsbury puts much of its success down to the launch of its loyalty card. It has 5.5m cardholders, and is adding members at the rate of 100,000 a week. It says it is ahead of its target to have 7m cardholders by the end of the year. "The Reward card has been extremely successful and has had the desired effect on our market share," the group said.

The success is not without irony. Mr David Sainsbury, chairman, last year derided loyalty cards as "electronic Green Shield stamps". Tesco and Safeway launched nationwide loyalty cards before Sainsbury. The group has a long way to go to get back to the situation in January 1995 – a month before Tesco launched its loyalty card – when Sainsbury had 22.2 per cent of the market and Tesco had 20.8 per cent.

Skynet puts its transfer to Aim on hold

By Peter Pearse

Skynet, a company set up to track vehicles by satellite, has put on hold its intentions to graduate from Ofex to Aim today.

The postponement follows the news, announced by the company yesterday, that at the end of last week the Securities and Futures Authority was undertaking "an informal review" of dealings in its shares in the two months between their introduction on Ofex and their suspension at the beginning of August, pending their transfer to Aim.

Skynet said yesterday it was "not aware of any reason for such a review".

Since Skynet's shares began trading on Ofex in early June, they have soared from an introduction price of 27½p to the 275p at which they were suspended. The company had been trying to raise a net £2m ($3.1m) in a placing which was to have closed tomorrow. The placing, through broker Waters Lunniss, was priced at 250p.

The decision not to proceed with the move to Aim also comes amid possible challenges to the intellectual property rights to Skynet's technology. However the company said that "the recent spurious claims" had not influenced its decision.

On August 6, Skynet was granted a High Court injunction restraining Mr Anthony Mayes of Wilmslow, Cheshire, from casting doubt on its ownership of the intellectual property rights to key technology. Mr Mayes had said Worldstream Enterprises, in which he had invested £12,000, had a claim to the intellectual property rights sold to Skynet by Comware ASB, a Danish company.

Funds more bullish on UK

By Philip Coggan, Markets Editor

Fund managers are becoming more optimistic about the UK stock market but are reducing their purchases in the Pacific basin and Japan, according to the latest Merrill Lynch/Gallup survey.

Throughout this year, the survey has shown that UK investment institutions have been net sellers of the domestic market. That trend continues, but the net balance of sellers over buyers has dropped to 3 percentage points, from 21 points in July.

Furthermore, the balance of managers who believe that UK share prices will be higher in 12 months' time has risen to 32 percentage points, from 20 points in July.

The UK market has struggled throughout 1996, despite a number of takeover bids and share buybacks which have returned cash to investors; political worries have been one of the main factors holding the market back.

The survey shows that 95 per cent of the fund managers questioned expect the Labour party to win the next election, up from 92 per cent in July. And 81 per cent of investors think that base rates will rise over the next 12 months, a considerable increase on July's 64 per cent.

However, for the first time in several months, most fund managers are not expecting to increase their cash holdings, which shows that their caution may be fading.

Institutional investors continue to be net sellers of US equities and buyers of Europe, Japan and the Pacific Basin. But their enthusiasm for Far Eastern stock markets is dwindling, with the balance of buyers dropping to 7 percentage points from 21 points in July.

Anger at £4m Kepit termination fee

By Roger Taylor

Investment managers bidding to take control of the Kleinwort European Privatisation Trust (Kepit) are furious at having to pay a £4m ($6.3m) fee to Kleinwort Benson. At least two managers have decided against putting in an offer for the fund, in part because of this.

Kepit, a £500m investment trust managed by Kleinwort Benson, is inviting investment managers to make offers to take over the fund. This follows two years of weak performance under the management of Kleinwort Benson, which prompted a hostile bid from rival investment trust TR European Growth.

But any company trying to take over the trust will have to deal with the £4m fee due to Kleinwort Benson for having its management contract terminated.

Invesco, which manages its own very successful European investment trust has decided not to put in a bid for Kepit because of the high costs.

Ms Sarah Bates, managing director of Invesco's investment trust division said: "A lot of companies are bidding for this fund. A major element will be the willingness of companies to pay Kleinwort Benson's compensation fee. We have to ask ourselves is this a sensible use of that amount of money for the likely return".

Singer & Friedlander, which had previously considered making a hostile bid for Kepit, has also decided not to make an offer for the fund now. One reason is said to be reluctance to pay the high costs involved.

Deutsche Morgan Grenfell is the only company, apart from TR European Growth, so far known to have made a firm commitment to bid for the fund. Nine other companies, including Fidelity and Flemings, have expressed interest

It is standard practice for a new manager taking over an investment trust to buy out the previous manager's contract. This can be a great disincentive to change fund managers. Contracts are usually for between one and three years, and fees are between 0.5 and 1.5 per cent a year of the fund.

Kleinwort's fee gives it a £4m cost advantage. Anyone bidding for the fund will have to show it can offer a shareholders a choice of either cash or a continuing investment fund at the minimum possible cost.

The stock exchange is reviewing the award of investment management contracts by funds, and may require shareholders to approve them in future.

Soccer's financial big league

Poorer clubs fail to win promotion, writes Patrick Harverson

The wealth gap between Premier League association football clubs and those in the lower three divisions has widened sharply, according to figures to be published today by Deloitte & Touche, the accountancy firm.

In its latest annual review of football finance, Deloitte reveals that while the combined operating profits of the 20 clubs of the Premiership grew from £40.8m in the 1993-94 season to £49m in 1994-95, the 72 clubs of the three Football League divisions saw their operating losses jump from £16.2m to £22.5m.

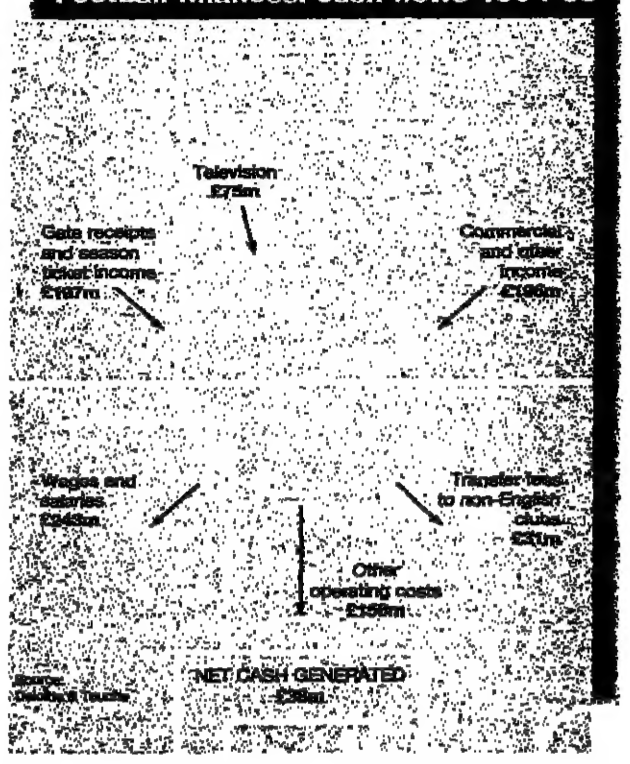
The deterioration in the results of Football League clubs – which in the past three financial years have incurred total losses of £48.4m – is blamed primarily on the fall in transfer income paid by the Premier League to smaller clubs.

In 1994-95 transfer income to the lower divisions totalled just £9.5m, down 27 per cent from the £13m received by the smaller clubs the previous year. The situation has worsened particularly for the very smallest clubs, with a mere £700,000 received in transfer income by the bottom two divisions in the 1994-95 season compared with £7m and £4m in the previous two season.

Mr Gerry Boon, head of the Deloitte football industry team, says in the report that the deteriorating financial position of the lower divisions is threatening the existence of some smaller clubs in the professional game. "It's difficult to see how some clubs will survive in the long term," he says.

The extent to which the biggest clubs in football have come to dominate the game in financial terms is revealed by Deloitte's review. It shows that the five biggest Premiership clubs – Manchester United, Newcastle United, Arsenal, Tottenham and Liverpool – have a combined turnover £10m greater than the 72 clubs in the Football League.

Football finances: cash flows 1994-95



The widening income gap between the top and lower divisions is making it increasingly hard for Division One clubs to earn promotion to the top flight and stay there.

Mr Boon says: "With the average Premier League club now having a turnover almost four times that of the average Division One club, it is difficult to see how even the larger Football League clubs are going to bridge the gap with the Premier League and sustain it."

However, Deloitte points out in its report that the financial performance of the top clubs is less impressive if transfer payments are included in the figures. Including net transfer spending of £84m, Premier League clubs recorded a pre-tax profit of only £6.3m in 1994-95, down from £12.8m a year earlier.

Manchester United again topped the profitability table with pre-tax profits of £20m, despite failing to win the Premier League title for the third consecutive year.

There is a big drop to the next most profitable clubs, Tottenham with £5m and Aston Villa £3.7m.

Deloitte & Touche Annual Review of Football Finance. £20, from Deloitte & Touche, Abbey House, 74 Mosley Street, Manchester M60 2AT. Free to clubs, football organisations and students.

Mayflower joins queue for Lotus

Mayflower, the UK engineering and automotive group, and TWR, the engineering and racing concern, are understood to have joined a list of companies interested in buying Lotus, should the sports car and engineering consultancy become a financial write-off, writes John Griffiths.

It is thought Mayflower and TWR have recently contacted former Lotus executives with inside knowledge of its financial position. Mr Romano Artioli, Lotus Italian owner, has stated it is less acute than former finance director, Mr Neeraj Kapur, has said.

On Friday Mr Artioli, served a writ on Mr Kapur alleging he misappropriated company property and failed to act in Lotus' best interests. He also issued a statement saying Lotus had won new engineering contracts recently and that the future was "encouraging".

However General Motors, by far Lotus' biggest customer for the engineering services which provide most of its revenue, is understood to have already placed new business elsewhere.

Potential buyers of Lotus' assets are thought to include Ricardo, the engineering consultancy, and a group of investors led by Mr Brian Henton, a former Grand Prix racing driver.

NEWS DIGEST

Norish makes coldstore sale

Norish, the Irish food distribution and refrigeration group, is selling its coldstore at Castleblayney, Co Monaghan, to Molloy & Sherry for I£1.65m ($2.68m) cash.

Following the disposal, Norish will pay I£3,000 for a 30 per cent stake in Lochmeen, a Molloy & Sherry group company which will take over the operation. Norish will use the net proceeds of I£1.55m to reduce borrowings.

Fiscal Properties acquisition

Fiscal Properties has agreed to pay Doncaster 2000 £6.03m for a new 57,797 sq ft office property in Doncaster. It is let to the Department of the Environment for 25 years from July 1996 subject to upward-only rent reviews evry five years. The present annual rent receivable is £557,799.

Crown Products double buy

Crown Products, the expanding Aim-listed toy and stationary group, has made two acquisitions to strengthen its range of indoor and outdoor play equipment and furniture. In two earn-out deals, it has acquired Snakes and Ladders, which manages playgrounds, and Yorkshire Playgrounds, which installs themed leisure facilities.

In-house analysts are gaining ground

Fund managers are increasingly relying on their own research, writes Nicholas Denton

Go to a UK company's annual results briefing these days and there are some fresh faces. Among the analysts from stockbrokers are representatives of a new breed: the in-house analyst from a fund manager that owns shares in the company.

These "buy-side analysts" – so called because they represent the institutions which buy shares – may only earn half or a third as much as their sought-after counterparts employed by stockbrokers. Their questions at briefings are fewer and less pointed. The harsher brokers' analysts dismiss them as sheeplike. But they are undeniably gaining in number and clout.

This year's Extel survey of investment analysts recently found that 47 per cent of fund managers planned to increase the amount of their in-house research.

And brokers' analysts increasingly complain they have to do the tedious legwork of digging out financial data about a company, while their opposite numbers at fund managers do the more sophisticated work of synthesising this basic information.

One important reason fund managers have built up their own research is that they have less faith than they did in the objectivity of the advice they receive from stockbrokers.

In a modern investment bank, research is a common resource for equity sales – which markets shares to institutions – and for the corporate finance department – which advises companies on acquisitions and helps them raise money.

The bankers have become more important as internal customers, as commissions on secondary trading have fallen to a wafer-thin 0.2 per cent. Fee revenue from primary business such as flotations can easily be 10-times that from broking in existing shares.

Analysts, who often meet chief executives, can help the bankers tout for business. In exchange, corporate finance usually shares the cost of research.

That makes some fund managers worry that brokers' research recommendations are motivated by a desire to please companies, and their own corporate finance departments, rather than institutional clients.

Only about one time in 10 does a broker make the unpopular recommendation to sell a stock, for instance.

Investment banks have on occasion upped the profits forecasts of companies whose share offerings they are managing. Mark Lawson-Statham, head of research at Fleming Investment Management, says: "A lot of the [brokers'] analysts out there are touting their wares for corporate finance business."

FUND MANAGEMENT

But more than mere distrust of brokers is behind fund managers' build-up of their own research efforts. In-house research goes hand in hand with differing investment styles.

Some houses prefer growth stocks – companies whose earnings are rising strongly – while others such as PDFM, the UBS fund management division, are value investors, choosing companies with low price-earnings ratios. One important function of buy-side analysts is to interpret financial data in the light of the house strategy.

The final factor is the consolidation of the fund management industry. The actuarial consultants who advise pension funds and other institutional investors tend to recommend fewer than half a dozen of the best-performing fund managers, such as Mercury and Morgan Grenfell Asset Management. The largest investment managers have gained the critical mass to support substantial in-house research.

Fund managers use in-house research in different ways and with varying intensity. Some of the smaller operators continue to rely on brokers. Fund managers such as Henderson, whose research staff has grown from zero to 12 in five years, use their in-house capability primarily to sift and synthesise brokers' reports.

But there is a group of fund managers - which includes Newton, Mercury, Fleming Investment Management and Schroder Investment Management - with sector specialists who turn up to company briefings.

Fund managers based in the US such as Fidelity – which have never had an independent stockbroking sector to rely on for tips – have the greatest commitment of all to their own research.

Two-thirds of Fidelity's 60 professionals in the UK are analysts. Rick Spillane, chief investment officer in Europe, says: "A lot of what is in brokerage reports is already discounted in the markets. Having our own research is our key strategic advantage."

As in-house research operations grow, the value of brokers' notes is declining. Fidelity estimates that only about 30 per cent of its ideas come from brokers. Another fund manager says: "If the phones were cut off tomorrow, we would not have a problem." This raises a question about the way institutions pay brokers.

At the moment, in the UK, institutions typically allocate their buy and sell orders, and therefore the commission they pay, according to how they rate a broker's analysis. But some fund managers, particularly those with expensive research efforts of their own, argue for a change. "If there are fewer and fewer brokers out there that we can rely for independence of view, why do we pay them commission?" asks one.

COMPANIES AND FINANCE

Belgacom investors encouraged by 15% rise

By Neil Buckley in Brussels

Strong growth in mobile phone and fixed telephony services helped Belgacom, the partially-privatised Belgian telecommunications group, increase first-half net profits 15 per cent from BFr5.7bn to BFr6.6bn ($216.5m).

Unaudited results for the first six months showed total turnover up 9 per cent at BFr67.5bn, from BFr62.1bn. Turnover from mobile phone services surged 53.1 per cent, while fixed telephony turnover climbed 8.9 per cent.

Operating profits before charges and tax jumped 30 per cent from BFr10.4bn to BFr13.5bn.

The results will be a boost for the consortium of Ameritech, the US telecoms company, Tele Danmark and Singapore Telecom, which paid BFr73.3bn last December for a 49.9 per cent stake in the company, which is still majority-owned by the Belgian state.

The Ameritech-led group beat a joint rival bid from KPN, the Dutch telecoms operator, and Swiss Telecom.

Belgacom said the outlook for the year was "encouraging", and that it expected the same growth in turnover as in 1995 – when sales rose 8.6 per cent – and an "improvement in operating profit".

But analysts agree that Belgacom faces difficult challenges as it prepares to lose its monopoly on voice telephony in Belgium in time for liberalisation of the European Union's telecoms market from January 1 1998.

One task will be to increase efficiency by cutting staff – the company had only 178 fixed lines per employee at the end of 1995, far fewer than the European average.

Progress in that area has been slow, with employees still numbering about 26,000, little changed from last year. Belgacom employees demonstrated last December over the threat of job cuts.

Another challenge will be to improve its reputation for poor service, to fend off competition from domestic rivals such as Telenet Vlaanderen – a consortium of US telecoms group US West and 17 local cable companies in Flanders, Belgium's Dutch-speaking region – and from powerful international telecoms alliances.

Competition is also likely to bring Belgacom's prices under pressure. A recent increase in call charges has already prompted complaints to the European Commission.

However, analysts also point to growth opportunities, with Belgacom's total of 4.6m fixed lines at the end of June representing a market penetration of only 46 per cent – well below some European rivals.

The Belgian government hopes the Ameritech-led consortium will inject a much-needed commercial ethos into the group, and sees the sale of a strategic stake last year as the first step towards a stock market flotation.

German Länder bond issue to be priced today

By Andrew Fisher in Frankfurt

Pricing will today take place of the DM4bn "jumbo bond" issued by seven German regional states (Länder).

The states, which banded together for the first time in a bid to lower borrowing costs and increase their capital market presence ahead of European monetary union, announced details of the issue on Friday.

It will run for 10 years and carry a 6.25 per cent coupon, yielding 17 basis points more than the comparable government bond, Dresdner Bank, a lead-manager of the issuing consortium, said.

The largest share of the issue's proceeds will go to the industrialised state of North Rhine-Westphalia, which will receive DM1bn. The states of Berlin, Hamburg, Hesse, Rhineland-Platinate, Saxony-Anhalt and Schleswig-Holstein will each have DM500m.

Germany's states, of which there are 16, are concerned that their borrowing powers could be weakened after Emu when they will be competing with other European regions to borrow in euros. Länder bonds make up about 10 per cent of German public sector debt.

By issuing jumbo bonds, which are liquid and appeal to international investors, the states hope to reduce funding costs and attract more international investors. At present, they issue largely through privately-placed certificates *(Schuldscheine)* and small bearer bond issues, both are which are very illiquid.

Bankers expect issues of *Schuldscheine* to continue, but foresee more jumbo bonds as the Länder continue co-operating to strengthen their borrowing muscle.

The main issuing consortium consists of ABN Amro Bank, Commerzbank, Deutsche Morgan Grenfell, DG-Bank, Dresdner Kleinwort Benson, Landesbank Hessen-Thüringen, Paribas Capital Markets, Trinkhaus & Burkhardt, Union Bank of Switzerland and Westdeutsche Landesbank.

The Hesse state finance ministry said the first-class creditworthiness of the issuing states, and the absence of large liquid German debt issues since February, except for government bonds, indicated the jumbo bond would be a success.

Financial trading drives advance at Julius Baer

By William Hall in Zurich

Julius Baer, the biggest of the publicly-quoted Swiss private banks, increased net profits in the first half of 1996 by 28 per cent to SFr62.2m ($51.7m). However, its results show the growing dependence of Swiss banks on volatile trading profits to maintain profits growth.

Profits from trading in securities and foreign exchange rose 31 per cent to SFr78.8m, while net interest income fell 5 per cent to SFr54.4m despite 9 per cent growth in the group's balance sheet to SFr9.1bn. Net income from fees and commissions, which traditionally accounts for more than half of profits, rose 21 per cent to SFr143.4m.

Baer's traditional business – managing private client money – accounts for about 70 per cent of funds under management. In the latest six months, assets under management rose 14 per cent to SFr56.2bn, reflecting the "substantial acquisition" of private and institutional accounts.

The group says growth in this area forms a "solid basis for growth of commission income as well as further activities related to the portfolio management business". However, a comparison of Baer's latest half-year results with its performance two years ago shows its recent growth in profits can be mainly attributed to it more than doubling trading income over the period.

By contrast, Baer's net commission income is marginally down on the 1994 figure of SFr145m, despite a 29 per cent rise in funds under management. Meanwhile, net interest income, one of the more stable sources of profits, has fallen 10 per cent since 1994.

Fresenius lifts first-half profits 51% to DM53m

By Wolfgang Münchau in Frankfurt

Fresenius, the German medical group, lifted net income 51 per cent to DM53m ($35.8m) in the first six months of the year. It attributed the improvement to fast sales growth, especially in the Dialysis Systems division, the core business of the group.

The interim results do not yet take account of the planned multi-billion dollar acquisition of National Medical Care (NMC), a leading operator of dialysis centres and a subsidiary of W. R. Grace, the US chemicals group. Fresenius' acquisition of a majority stake in NMC still needs the approval of shareholders in W. R. Grace and of Fresenius' US operations before the deal is completed in the autumn. The merger has been approved by the Federal Trade Commission of the US and the Federal Cartel Office in Germany.

Fresenius' sales rose 27 per cent to DM1.35bn in the period, including a contribution from two acquisitions in Austria and Mexico. Without these, sales growth would have amounted to 14 per cent. Fresenius said yesterday sales of the dialysis systems division climbed 15 per cent to DM692m, with the strongest growth coming from dialysis machines.

The pharmaceutical division lifted sales 16 per cent, to DM407m from DM352m in the 1995 January–June period.

Group pre-tax profits went up by 32 per cent to DM85m. The company said the increase in operating costs and depreciation had been lower than the advance in sales. The company also benefited from lower taxes.

NEWS DIGEST

Former Lazard man faces prison

Mr Mark Ferber, a former partner at Lazard Frères, the New York investment bank, faces a prison sentence and millions of dollars in fines after being convicted by a Boston court of fraud and corruption. He is the highest-profile Wall Street executive to face jail since Mr Michael Milken and Mr Ivan Boesky were imprisoned in the insider dealer cases of the 1980s.

Mr Ferber, 43, was convicted on 58 counts of defrauding his clients by failing to disclose kick-backs paid under a secret fee-sharing arrangement set up by Lazard Frères and Merrill Lynch. Prosecutors expect him to be given a three to five-year prison term when sentenced on November 4. Mr Ferber's lawyers said he would appeal. The case arose from a contract between Lazard Frères and Merrill Lynch under which Lazard introduced municipal authority clients to Merrill, which arranged interest rate swaps for them. In return, Merrill would pass part of the fees from the swaps to Lazard. The Securities and Exchange Commission said Mr Ferber received substantial financial benefits from the contract, which brought Lazard $2.6m in fees. Prosecutors said although none of Ferber's clients lost money, he had defrauded them of the right to honest services. Lazard Frères and Merrill Lynch each paid $12m last year to settle civil charges brought by the SEC. *Richard Tomkins, New York*

NBP bond debut flops

A maiden foray by the National Bank of Poland (NBP) into the domestic bond market, its first ever outright bond sale, met with scant success when the 29 market-making banks refused to accept the rates offered.

"These bonds have low liquidity and that means that the interest rate must be at least 20 basis points (or 0.20 percentage point) higher than 52-week Treasury bills, which are currently yielding more than 20 per cent," said Mr Piotr Bednarek, principal dealer at ING bank in Warsaw. The two-year government bonds offered last week by NBP had a yield of 19.92 per cent. A sale of 14 per cent five-year bonds met the same response: in three sessions last week the NBP could place no more than one-fifth of the total 1.6bn zlotys on offer.

The two issues, maturing in July 1997 and July 2000, were bought by the NBP when launched a year ago by the government. Since July 1995, bank officials say, the NBP has had to await approval from the Securities Commission to proceed with outright sales to investors. Meanwhile, interbank rates have been falling and returns on Polish Treasury bills due for auction today are expected to decline, possibly making the yields of the NBP bonds look more attractive. *Christopher Bobinski, Warsaw*

Radex-Heraklith declines

Radex-Heraklith, the Austrian industrial group which claims to be the world's biggest maker of high-grade refractory materials, has reported a 12.6 per cent drop in first half pre-tax profits to Sch208m ($20m). Net sales for the six months to end-June fell Sch100m to Sch10.4bn. *William Hall, Zurich*

Tony Andrews

Dogfight: USAir claims BA deal with American Airlines violates terms of alliance

Suit against BA could leave USAir flying solo

Management at the US carrier is ready for independence

Was USAir indulging in a spot of irony when it reacted to news of the alliance proposed by British Airways and American Airlines in June? The proposal had, claimed the junior partner in a three-year-old alliance with British Airways, "the potential to provide USAir with the ability to pursue new and positive opportunities".

Two months later, it has become clear just what those opportunities were. One is the chance to sue British Airways and American Airlines for allegedly trampling over USAir in their eagerness to do a deal; another, the opportunity to try to terminate USAir's partnership with British Airways.

In a suit filed in a federal district court in New York, USAir claims that British Airways violated the terms of their alliance by seeking a partnership with American Airlines. It seeks damages against British Airways and American Airlines and a dissolution of the USAir-British Airways partnership.

In a country as litigious as the US, it would be easy to dismiss USAir's suit as opportunistic or frivolous. But the airline – or perhaps more precisely, its new chairman and chief executive, Mr Stephen Wolf – appears to be deadly earnest.

USAir's alliance with British Airways was formed in January 1993, when USAir had suffered four consecutive years of heavy losses and was badly in need of cash. British Airways came as a saviour with its offer to invest $750m over five years.

Under phase one of the three-phase deal – the only part completed – British Airways invested $300m in USAir in return for a 24.6 per cent stake in the company and three seats on the board. The airlines also struck a code-sharing deal.

The alliance seemed to make sense. USAir was the biggest airline on the US east coast and British Airways the biggest transatlantic operator. By integrating operations, the two could offer seamless connections for passengers travelling between dozens of US cities and the UK.

Now, however, USAir argues it got the raw end of the deal. At British Airways' insistence, it says, it was obliged to relinquish its three routes between the US and the UK, leaving British Airways to fly them instead. And while the code-sharing agreement allowed British Airways to put its codes on USAir flights, USAir was barred from putting its own codes on British Airways flights.

In effect, USAir says, the deal turned it into little more than a domestic feeder service for British Airways' transatlantic services. While British Airways says it benefits by about $100m a year from the alliance, USAir says it gets $30m.

British Airways points to the fact that its investment in USAir probably saved it from oblivion. But USAir's suit goes on to allege it was kept in the dark about British Airways' negotiations to give American Airlines a better deal than USAir ever had.

It takes particular issue with the fact that, even as British Airways was continuing to refuse reciprocal code-sharing rights for USAir, the company was offering exactly those rights to American Airlines. "While BA was saying 'no' to USAir, it was saying 'yes' to AA," the suit says.

Industry analysts are in little doubt that the carrier's main purpose in filing the suit is to regain its independence. Mr Wolf, appointed USAir chairman and chief executive in January, has a reputation for turning round troubled airlines and preparing them for sale. He did it with Republic Airlines (sold to Northwest Airlines in 1986), Tiger International (sold to Federal Express in 1989) and United Airlines employee buy-out in 1994).

USAir fits the description of "troubled". Although profitable, it has the highest costs of any large US carrier and faces severe competition as low-cost US carriers continue to expand. But that is all grist to Mr Wolf's mill: he is confident he can turn the airline round.

Selling it, however, is another matter – British Airways is sitting on a quarter of the equity. And if USAir fails to find a buyer, independence will at least leave it free to start up its own transatlantic services.

"The new management probably feels there is more value in the company if it is not associated with British Airways," says Mr Raymond Neidl, analyst at Furman Selz.

Richard Tomkins

FINANCIAL TIMES
MARKETS
THIS WEEK

Global Investor / Peter Martin

Lessons from the July setback

We are now far enough from the sharp market setback of July to draw lessons from the event. The FT/S&P World Actuaries index is back to within 2 per cent of its high. Is it back to business as usual?

There is one obvious difference. Smaller stocks, especially high-technology ones, have not regained the ground they lost during the correction. Smaller US stocks, for example, outperformed larger ones significantly in the run-up to the correction. When shares in general fell, they fell fastest. Since the bottom of the trough, they have stayed in step with their larger rivals, but have not made back the ground they lost. Overall, they have underperformed larger stocks by 5 per cent or so since the June correction. To put it another way, the Dow Jones Industrial Average is roughly 1.8 per cent below its May high; the Nasdaq Composite is 10 per cent below its peak of early June.

The performance of some of the main stock market indices is shown in the chart. The three periods examined are the first six months of the year, the three week downward move (July 1 to July 24) and the snap back (July 24 to August 7).

Looking more widely, and using the FT/S&P country indices, the pattern is clear. In general, those markets which did best during the first six months of the year did worst during the setback. New Zealand, for example, gained only 0.77 per cent in the first period, against a world index average of 6.26 per cent, putting it fourth from last. But in the second period, when stocks elsewhere were sliding, New Zealand came top, with a gain of 1.71 per cent. A similar, less exaggerated, effect was at work for the UK, which was close to the bottom of the list in the first period, but in second place in the second period (with a drop of only 1.58 per cent compared with the world average fall of 5.88 per cent).

The recovery of late July and early August has shown up most in those markets where performance was strongest in the early part of the year, most noticeably the US. Analogously, neither the UK nor New Zealand sparkled during the recovery, though their underperformance was not as marked as in the early part of the year.

So much for history. What are the lessons? There are three. First, despite recovering its poise, the market is still wary of small-cap stocks, especially technology plays. Second, emerging markets have split into two groups. Some, such as Mexico, appear to be essentially highly geared versions of the world market – outperforming sharply in the upswings and underperforming badly during the setback. Others, particularly once-favoured south-east Asian markets, seem to have broken free into an ill-favoured orbit of their own, doing relatively badly in all three phases. Thailand in particular stands out as one of only two countries to fall in all three periods, the other being South Africa.

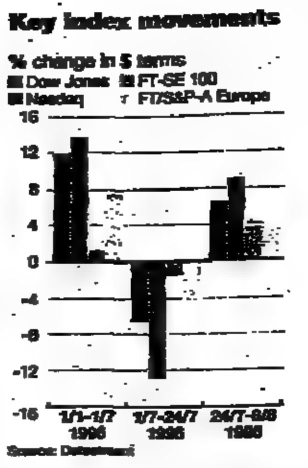
Third, in the developed world, the big issue is still economic growth. Wall Street's setback came because investors feared the US economy was growing too fast and the Federal Reserve would take steps to cool it. The setback proved, in effect, self-correcting, since it led many to believe that – with the worst speculative excesses in technology stocks now past – the Fed would be less likely to raise rates at its next open market committee meeting, due on August 20.

Economic growth is also a theme of Japan's stock market performance. Lingering doubts about the resilience of the economy have been one of the factors preventing Tokyo's full participation in the year's two upswings, while not protecting the market against the setback in between.

In the other two big economies where growth has been the main issue – Germany and France – the balance of economic expectations has noticeably changed in the past few weeks. France outperformed Germany in the period of rising world share prices in the early part of the year. But the position was reversed in both the succeeding periods, with Germany clearly ahead. This shift owed a great deal to the perception of stronger growth prospects for the German economy.

The rise and partial fall of the high-tech sector has diverted attention from a more boring truth. Investors are highly sensitive at the moment to individual economies' prospects of stable, surprise-free growth. They are particularly sceptical about countries where policy is under pressure – either from over-energetic expansion or from continued stagnation and social tension. The winners and losers of the year to date show just how quickly the markets respond to those fears.

Key index movements



Source: Datastream

Total return in local currency to 8/8/96

	US	Japan	Germany	France	Italy	UK
	% change over period					
Cash						
Week	0.10	0.01	0.07	0.07	0.17	0.11
Month	0.46	0.04	0.28	0.32	0.75	0.48
Year	5.91	0.78	4.50	5.97	10.81	7.19
Bonds 3-5 year						
Week	0.44	0.64	0.37	0.08	0.29	0.30
Month	2.16	0.93	1.88	1.29	0.39	0.87
Year	5.79	2.98	8.63	10.95	19.16	9.75
Bonds 7-10 year						
Week	0.59	0.90	0.50	0.30	0.32	0.48
Month	3.39	1.19	2.42	2.13	0.16	1.40
Year	6.00	4.09	10.09	13.69	26.77	10.49
Equities						
Week	2.0	-1.1	2.2	-0.3	0.2	2.1
Month	1.9	-5.2	0.4	-3.4	-6.2	2.3
Year	20.7	17.1	14.3	8.7	-7.9	14.4

Source: Cash & Bonds - Lehman Brothers. Equities-© FT/Extel Index Unit.
The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co., and Standard & Poor's.

COMPANY RESULTS DUE

Bayer and Hoechst look strong in first half

Analysts expect Germany's chemicals companies to perform strongly in the first half of this year. But with no sign of any decisive pick-up in the economy, the companies will refrain from being too bullish about their prospects for the rest of the year.

Bayer kicks off the reporting season for Germany's chemicals companies today followed by Hoechst on Wednesday.

Analysts are expecting Bayer's pre-tax profit to rise to DM2.63bn-DM2.68bn ($1.81bn-$1.9bn) in the first half, up 9.5-11.5 per cent from last time.

However, given the uncertainty about the strength of the upturn in the German economy, the companies would not want to pin themselves down to overly positive forecasts for the remainder of the year, analysts said.

Hoechst would provide an interesting case, because its results are likely to be distorted by a number of divestments this year, analysts said. Those are likely to bring about a decline in sales, but a rise in earnings.

Analysts are expecting Hoechst's first-half sales to fall to DM25.95bn this year from DM26.3bn last year, with pre-tax profits rising to DM2.75bn from DM2.1bn.

■ **Astra:** The Swedish pharmaceuticals group is on Thursday expected to report a pre-tax profit for the six months to June of SKr6.56bn-SKr7.234bn ($994m-$1.1bn), compared with SKr6.338bn a year earlier, according to a survey of analysts.

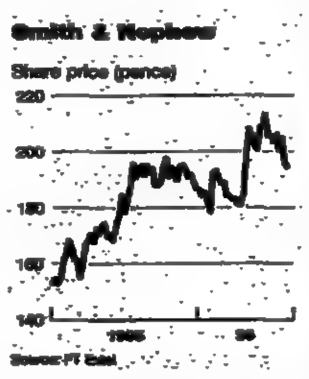
The average expectation is for a first-quarter pre-tax profit of SKr6.949bn, according to survey published by the Swedish news agency Direkt. The spread in estimates was largely a result of the difficulty of assessing when the effect of the strengthened krona would show in the company's results, analysts said.

■ **ABN Amro Bank** begins the reporting season for the leading Dutch financial institutions on Thursday, when it is expected to report net profit for the 6 months to June of Fl 1.468bn-Fl 1.515bn ($937m) or Fl 4.25-Fl 4.36 a share, according to analysts' forecasts. They expect a first-half dividend rise to FL 1.80-Fl 1.95 from Fl 1.60 a year earlier.

German chemicals

Source: FT Extel

Smith & Nephew



Source: FT Extel

■ **Smith & Nephew:** Interim results today from the medical equipment producer, are expected to reflect the weakness of the US healthcare market. This dullness will be more than offset by strong growth in Europe and south-east Asia, and contributions from recent acquisitions, such as Acufex. As a result, the group is likely to outperform its peers in a difficult market. But pre-tax profits will still be up by little more than 5 per cent, at about £90m ($140m).

■ **WPP:** The world's largest marketing services group is expected today to declare first-half pre-tax profits of £64m ($99m), up from £48m, led by 10 per cent of revenue growth and improved margins.

WPP's plan to improve operating margins by 1 percentage point a year is reaping dividends – the current figure is around the 10 per cent mark – although the group has some way to go before it reaches the 12-15 per cent of its peers in the US.

The group has benefited from the global trend of large clients such as Kodak and IBM consolidating their advertising and marketing business.

■ **General Accident:** The Scotland-based composite insurer is expected tomorrow to report a drop in half-year operating profits from £257m to about £180m ($279m). Like other insurers, GA has been hit by higher US and UK weather claims. Attention is likely to focus on the group's attempts to reverse recent price falls for personal insurance – and on its tactics for countering the competitive threat posed by newly merged rival Royal & Sun Alliance.

■ **Sedgwick:** The insurance broker, is expected tomorrow to produce half-year pre-tax profits barely higher than last year's £63m ($98m), reflecting continuing tough trading conditions. Mr Sax Riley, chief executive, has previously mooted possible mergers among the big six global brokers, but rival Willis Corroon said last week that combinations would not work. Sedgwick's response will be noted carefully.

■ **BOC:** The gases group publishes third-quarter results tomorrow. Analysts are expecting pre-tax profits of about £114m ($178m), compared with £100m last time.

Earnings per share and sales should show steady growth to about 15p and £970m respectively. Analysts will be looking for continued growth in US market share in industrial gases.

Also of interest will be progress at the company's vacuum division, which serves the turbulent semi-conductor industry, while its healthcare operations are still suffering from heavy competition. There may even be hints of acquisitions in industrial gases.

■ **Glynwed International:** The diversified engineering group is expected to report a mixed set of interim results on Wednesday with pre-tax profits forecasts ranging from £39.7m to £43.4m ($67m), compared with £41.5m last time.

Analysts believe the company has come under pressure from the decline in stainless steel prices, patchy demand from utilities, and continued destocking.

INTERNATIONAL EQUITIES By Tony Tassell

Non-voting shares come to India

The spectre of non-voting shares looks set to unsettle yet another equity market.

The Indian government cleared the way in last month's federal budget for Indian companies to issue non-voting shares for up to 25 per cent of their capital. Predictably, the move has aroused hostile opposition from foreign institutional investors in the country.

As in other markets where non-voting shares have been introduced, concerns have been raised about an emasculation of the rights of minority shareholders, an increase in costs of capital following higher dividend payments on such stock, and a reduction in the accountability of company management.

However, the issue also has a particular significance for India where most private companies are controlled by family groups.

Many of these, often household names in India, control sprawling empires through complex webs of minority shareholdings in different companies.

With state-owned financial institutions, the largest shareholders in India, adopting a largely passive approach to their investments, the family groups can control companies with small shareholdings. The Tata group, for instance, controls the Tata Iron and Steel Co, the bluechip Indian steelmaker, with a holding of just 15 per cent.

Non-voting shares would allow many of the cash-strapped family groups to raise funds without diluting their control. If impending guidelines for non-voting shares are too permissive, some analysts fear there could be a rush of issues.

Mr Anthony Conway, director of Seamico Marlin Securities, said foreign institutional investors viewed the issue of non-voting shares as an retrograde step. He said many were likely not only to boycott non-voting share issues but also offload holdings in companies which make them. "It is a very slippery slope. It is something India could do without at the moment," he said.

Mr Bharat Shah, chief investment officer of Birla Capital International, also said the issue of non-voting shares would be a "lose-lose proposition" for any company making one. He said even a "whisper" of such an issue would result in a company's shares being "severely punished".

However, despite impassioned pleas by some foreing institutions to overturn the decision to allow non-voting shares, the Indian government appears unlikely to change its mind. Mr Montek Alhuwalia Singh, finance secretary, recently said the market should decide on whether the non-voting shares should be issued, not the government.

Mr Adrian Mowatt, director of Martin Currie Investment Management, said non-voting shares were unlikely to find acceptability in the market. He said they increased the cost of capital for ordinary shareholders, as higher dividend payments are usually required to compensate for the lack of voting rights. In addition, disenfranchising a class of shareholders signalled a poor attitude to corporate governance.

However, Mr Brij Gopal Daga, chief general manager of market operations for India's largest mutual fund group, Unit Trust of India, questioned the opposition of foreign institutions. He said many held global depository receipts which required them to vote with the issuer's management in any resolution put to shareholders.

Mr Daga also said that in some cases non-voting shares might be of interest to UTI as a source of income.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FT-SE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY AUGUST 9 1996 US Dollar Index	%chg since 29/12/95	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 29/12/95	Gross Div. Yield	THURSDAY AUGUST 8 1996 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (80)	198.26	4.3	189.71	135.49	152.38	165.34	-0.5	4.26	198.70	190.09	135.85	153.05	169.61	212.19	177.98	185.80
Austria (24)	180.69	3.5	172.90	123.49	138.88	138.79	6.9	2.03	179.10	171.35	122.46	138.23	138.18	195.04	168.11	192.06
Belgium (27)	217.62	4.0	208.23	148.72	167.26	163.56	7.0	4.07	216.63	207.25	148.12	167.19	163.45	217.62	186.06	197.81
Brazil (28)	177.82	28.9	170.16	121.53	136.68	331.12	34.2	1.53	178.22	170.50	121.85	137.54	331.75	199.70	123.97	150.50
Canada (118)	159.77	7.6	152.87	109.19	122.80	158.76	8.3	2.25	159.76	152.64	109.23	123.30	158.64	165.12	134.14	147.83
Denmark (30)	314.62	8.9	301.05	215.01	241.82	244.76	12.4	1.56	315.18	301.51	215.48	243.23	246.05	315.18	276.89	292.15
Finland (23)	207.50	10.9	198.54	141.80	159.48	193.76	13.7	2.58	206.87	197.92	141.44	159.66	194.38	276.11	171.73	259.25
France (96)	190.05	5.9	181.85	129.88	146.07	150.67	9.5	3.20	190.44	182.19	130.21	146.97	151.14	198.39	167.70	187.06
Germany (58)	175.86	7.3	168.09	120.06	135.02	135.02	10.8	1.81	175.68	168.07	120.12	135.58	135.58	175.68	155.66	164.25
Hong Kong (58)	424.38	9.5	406.07	290.03	326.18	421.59	9.5	3.47	426.66	408.19	291.72	329.28	423.73	451.19	348.81	365.45
Indonesia (27)	191.21	–	182.98	130.67	146.96	274.88	–	1.73	191.23	182.95	130.75	147.58	275.27	–	–	–
Ireland (16)	285.50	11.7	273.18	195.11	219.44	249.90	11.2	3.49	287.17	274.74	196.35	221.63	251.56	290.82	235.88	247.91
Italy (58)	75.92	3.0	72.64	51.88	58.35	86.19	-1.9	2.49	77.08	73.74	52.70	59.49	87.47	84.53	67.22	81.40
Japan (481)	145.91	-5.8	139.61	99.72	112.15	99.72	-1.3	0.77	146.74	140.39	100.33	113.25	100.33	164.68	137.75	149.21
Malaysia (107)	544.84	12.3	521.33	372.35	418.76	522.66	10.2	1.72	542.52	519.03	370.93	418.70	520.45	585.09	425.77	546.11
Mexico (18)	1237.42	19.5	1184.04	845.68	951.08	10173.38	16.6	1.31	1225.25	1172.25	837.76	945.64	10093.76	1325.65	791.99	1203.20
Netherland (18)	295.84	8.8	284.05	202.86	228.15	224.80	12.7	3.21	296.23	283.40	202.54	228.62	225.31	299.69	245.79	258.61
New Zealand (15)	82.44	3.5	78.89	56.34	63.37	63.61	-1.7	4.27	82.30	78.31	56.68	63.98	53.99	84.71	75.94	82.26
Norway (35)	249.63	7.9	238.86	170.60	191.86	216.70	9.3	2.09	250.03	239.21	170.96	192.97	217.52	256.94	222.24	239.15
Philippines (22)	198.98	–	190.39	135.98	152.93	258.75	–	0.83	199.75	191.10	136.57	154.16	260.76	–	–	–
Singapore (44)	391.76	-3.8	374.86	267.73	301.11	255.60	-3.7	1.49	391.18	374.25	267.48	301.90	255.60	465.21	355.81	368.02
South Africa (44)	331.90	-13.9	317.58	226.82	255.10	329.02	7.2	2.28	332.30	317.92	227.20	256.46	329.02	437.76	329.57	359.83
Spain (37)	176.27	8.7	169.67	120.47	135.48	169.15	10.8	3.49	177.72	170.03	121.51	137.16	169.76	183.85	145.15	156.06
Sweden (48)	353.04	13.1	337.81	241.27	271.34	347.71	13.6	2.45	352.58	337.32	241.07	272.11	346.72	360.77	280.13	280.13
Switzerland (37)	247.82	5.0	237.13	169.36	190.48	184.85	9.9	1.80	248.89	238.20	168.81	190.54	185.36	252.34	181.24	197.65
Thailand (45)	147.98	-12.1	141.58	101.12	113.72	145.32	-11.7	2.30	150.37	143.86	102.81	116.05	147.71	193.95	141.28	163.03
United Kingdom (199)	239.19	3.8	228.87	163.46	183.84	228.87	4.0	4.16	239.22	228.87	163.56	184.62	228.87	239.22	216.52	224.81
USA (625)	269.51	7.3	257.89	184.19	207.15	269.51	7.3	2.19	269.80	258.12	184.47	208.22	269.80	278.47	226.74	228.48
Americas (791)	246.30	7.6	235.68	168.33	189.31	207.12	7.6	2.19	246.53	235.86	168.56	190.27	207.31	252.43	208.19	209.80
Europe (708)	212.37	5.7	203.21	145.14	163.23	182.86	7.6	3.11	212.49	203.29	145.28	163.99	183.29	213.30	188.33	196.17
Nordic (136)	307.43	11.5	294.17	210.10	236.29	263.53	12.8	2.34	307.21	293.91	210.05	237.09	263.52	307.43	251.15	274.50
Pacific Basin (880)	159.12	-3.7	152.28	108.75	122.30	111.05	-0.3	1.24	159.82	152.99	109.34	123.42	111.84	177.01	148.86	159.78
Euro-Pacific (1588)	181.18	0.7	173.37	123.82	139.26	138.16	3.4	2.15	181.70	173.83	124.23	140.23	138.70	180.57	166.51	174.85
North America (744)	262.76	7.3	251.43	179.57	201.96	262.14	7.3	2.20	263.03	251.64	179.84	203.00	262.40	269.52	221.79	223.48
Europe Ex. UK (507)	192.81	6.8	184.49	131.77	148.19	156.39	9.7	2.53	192.95	184.60	131.93	148.92	156.97	194.86	169.65	176.36
Pacific Ex. Japan (399)	280.11	5.9	268.02	191.43	215.29	242.68	4.1	3.05	280.74	268.59	191.95	216.67	243.02	296.68	243.59	260.62
World Ex. US (1796)	182.44	0.9	174.57	124.68	140.22	142.73	3.9	2.15	182.92	175.00	125.06	141.17	143.24	191.65	167.36	176.02
World Ex. UK (2222)	206.57	3.5	197.66	141.17	158.77	174.25	5.5	1.97	207.01	198.05	141.54	159.78	174.73	213.05	185.61	188.78
World Ex. Japan (1940)	243.93	6.5	233.41	166.70	187.49	229.93	7.4	2.58	244.15	233.58	166.93	188.43	230.27	247.86	212.82	216.14
The World Index (2421)	209.42	3.5	200.38	143.12	160.96	179.18	5.3	2.17	209.83	200.74	143.46	161.94	179.63	214.86	188.49	181.82

 Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local); Brazil, Thailand and Americas: Oct 31, 1994 = 180.44 (US $ Index), 164.07 (Pound Sterling) and 149.94 (Local). Indonesia and Philippines June 28 1996 = 214.14 (US $ Index), 204.33 (Pound Sterling) and 184.40 (Local). CONSTITUENT CHANGE WITH EFFECT 12/8/96: Deletion: Scottis Hospitality (Canada). Markets closed 9/8/96: Singapore and South Africa.

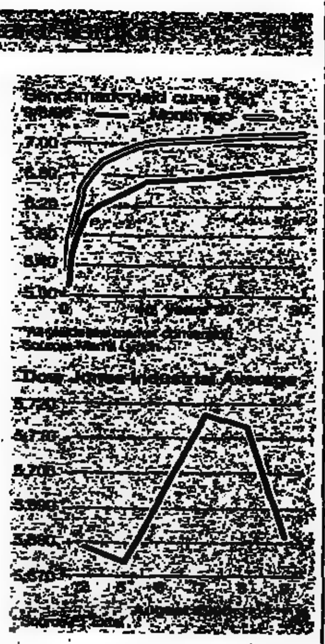
MARKETS: This Week

NEW YORK

US markets maintained their more relaxed stance last week following the drastic – and favourable – reappraisal of the outlook for the US economy the week before. Admittedly, the Dow took a tumble late on Friday, but that was largely because Philip Morris, a big constituent of the index, took a hit from an unexpected award against the tobacco industry in a Florida court. Without that, the Dow would have ended the week within striking distance of its record high. Bonds, too, sustained their rally, with rising prices driving the yield on the 30-year long bond down from 6.73 per cent to 6.69 per cent over the week.

Analysts see little on the horizon to interrupt this trend. Friday's figures for producer prices, showing an increase of just 0.1 per cent, reinforced perceptions that the inflation threat is in retreat, leading to a growing belief that the Fed will not push up interest rates at the meeting of its open market committee next week. Donaldson, Lufkin & Jenrette does not see any possibility of a firming this year: indeed, it believes there is a significant possibility of an easing at the Fed's December meeting.

Analysts are expecting another week of good news on the economic front. Among the more notable statistics, the latest inflation figure – the consumer price index for July, due tomorrow – is expected to show a favourable picture with an increase of just 0.2 per cent. Figures for retail sales, also due tomorrow, are expected to show a decline of 0.2 per cent, and figures for industrial production, due on Thursday, are expected to show a decline of 0.1 per cent.



LONDON By Philip Coggan

Economic data seem likely to set the market agenda in London this week, after the recent run of corporate news which moved the FT-SE 100 index towards the top of its recent trading range.

Investors have producer prices, unemployment, average earnings, retail prices and the public sector borrowing requirement to analyse. Gilt investors will remain nervous about any inflationary trends, especially after the Bank of England's warning last week that interest rates will have to rise if the government is to meet its target.

However, Mr John Shepperd, chief economist at Yamaichi International, tells investors to "look for a good run of UK inflation data in the coming week. Whether inflation is dead or not is a debatable point, but it is certainly showing few visible signs of life."

But markets are also going to be strongly influenced by US statistics, ahead of what could be a vital meeting of the Federal Reserve's open market committee on August 20. Figures on consumer prices, retail sales, industrial production and capacity utilisation – all or any could be decisive in determining whether US interest rates increase.

The growing conviction that the Fed will hold fire played its part, along with decent corporate results and takeover rumours, in prompting the Footsie to record seven consecutive gains. But so far this year, every time the Footsie has rallied past 3,800, something has happened to drag it back down again. Unless a multi-billion pound bid emerges, or the Conservative party starts to narrow its deficit in the opinion polls, it is hard to see what will prop the Footsie up this time.

FRANKFURT By Andrew Fisher

After the banks, it is the turn of the chemical companies. Germany's banks mostly turned in impressive first-half results, and speculation about possible mergers, takeovers or alliances helped keep their share prices buoyant.

After a bout of nerves caused by volatility on Wall Street over possible US interest rate rises, the German stock market kept its nerve. The Dax blue-chip index ended last week above 2,500, having dipped below for a while.

Bayer and Henkel are due to report interim results today, with SGL Carbon on Tuesday and Hoechst on Wednesday. BASF will announce its figures on August 22. Because of their combined weighting in the Dax 30-share index, better profits from the chemical groups and higher share prices could help break the market's recent hesitancy, analysts said.

With the Bundesbank still on its summer break and the next council meeting not until 10 days' time, interest rate cut expectations remain muted. Signs of a strengthening economy, with better industrial orders and production figures announced last week for June, could prompt the central bank to keep rates unchanged for a while longer. Having decided not to cut the securities repurchase (repo) rate last month, the state of the economy could confirm its no-change policy.

July's business sentiment index, to be released by the Ifo economic research institute before the next Bundesbank meeting, could be more positive than in June, J. P. Morgan said. This would give the central bank "a good reason to keep the repurchase rate on hold".

TOKYO By Emiko Terazono

The Bank of Japan's efforts to alleviate concerns over an imminent interest rate rise helped Tokyo's bond market, but the stock market remained sluggish on worries over future supply.

Bond yields fell sharply as the Bank of Japan, noting that economic recovery was slow, injected funds into the short-term money market.

But while fears the Bank may raise interest rates following the release of the *Tankan* quarterly business confidence survey on August 28 have receded, a bond market rally may not last, note some economists.

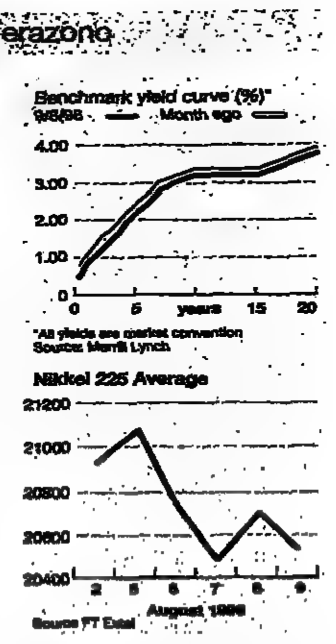
"The new-found optimism in the bond market may prove short-lived," said Mr Peter Morgan at James Capel in Tokyo. He says as the inventory adjustment period nears an end, there will be support for a rebound in industrial production.

The strength of the stock market will also affect the timing of a shift in monetary policy. The Nikkei 225 benchmark last week fell to a five-month low amid declining volumes.

With foreign investors, which led the market's rally earlier in the year, becoming increasingly inactive, share prices have become vulnerable to selling because of oversupply fears.

The banks, which are expected to continue to write off bad loans, are raising capital on the stock markets. Industrial Bank of Japan recently announced it would issue Y226bn in new shares, while Nippon Credit Bank last week said it would issue preferred shares.

Worries over the listing of West Japan Railway, one of the seven groups created by the break-up of Japan National Railway in 1987, will also hang over the market. Investors will focus on the auction outcome.



COMMODITIES By Richard Mooney

Gold price prepares for test

The gold market's attempt to break into higher ground stalled last week at $392.40 a troy ounce, and the price subsided to $387.70. But traders generally remained generally bullish, suggesting that a fresh sortie into the $390s was more likely than a retreat to $385.

This view could be confirmed or modified on Thursday, when the World Gold Council, a promotional body funded by gold producers, releases the latest issue of its Gold Demand Trends.

At the presentation of the report in London, Mrs Helen Juntz, director of the WGC's gold economics service, will be reviewing developments in gold demand during the second quarter of this year, during which the average price was $10 below that of the previous quarter. She will focus on how demand has reacted to price changes in different markets.

Gold market analysts remain divided on the outlook for the market. Among the more convinced bulls is Mr Brian Marber, an independent technical analyst. He told the Reuter news agency last week that the end of the bear trend had been indicated on August 1, when the London afternoon gold fixing was above $386.10 an ounce, the last high on its way down.

"That was the clincher," Mr Marber said, adding that a decisive break above the one-year moving average of $390 would cement the start of the uptrend.

Ms Amanda Sells, of Union Bank of Switzerland, was less sure. "Gold is in a vulnerable and yet potentially pivotal position," she said, suggesting that gold needed a confirmed break of resistance at $392 to signal a medium to longer term reversal.

● Events this week include the release today of the International Primary Aluminium Institute's stocks data for June. In Perth, Western Australia, meanwhile, a conference is being held on mining construction and infrastructure.

OTHER MARKETS Compiled by William Cochrane

NORDIC

Having already reacted with enthusiasm to progress reports from Electrolux, in Sweden, and Nokia in Finland, Nordic markets will be tested again this week as the interim results season gets into top gear: names include Kvaerner and Den norske Bank in Norway; Novo Nordisk, Copenhagen Airport and ISS in Denmark; and a sheaf of Swedish companies including Autoliv, Gambro, Astra, Ericsson and Sandvik. On Sweden, UBS Global Research says that, with the European business cycle bottoming out and the krona up 15 per cent year-on-year against the D-Mark, bad second-quarter figures have been discounted and corporate comments on the outlook will be much more important. However, on Copenhagen Airport, the broker forecasts a 42 per cent gain in net profits.

ZURICH

The Swiss market has made good the setbacks suffered in the second half of July, having advanced by about 11 per cent since the beginning of this year. Renewed optimism in the banking sector was generated by the CS Holding restructuring plans at the end of June, says Mr Ian McEwen at Lehman Brothers, and underpinned by the half-year figures from UBS last Monday. Mr McEwen has shaded up his net profit estimates for SBC, which reports on Wednesday, from about SFr700m to SFr750m. It will be difficult to make definitive comparisons in SBC's case, he says, given that Warburg, the UK merchant bank which SBC acquired last year, was in the Swiss bank's figures for the second half of 1995, but not the first. However, if SBC makes SFr750m it should make quite an impact.

BANGKOK

Organisers of Thailand's Bt21bn stock market support fund are aiming to pump part of the money into the market next week – as soon as they can raise the money and the market itself stabilises, *writes Ted Bardacke*. Brokers and the Thai Bankers Association, which will lend Bt5bn to the fund, are squabbling over the interest rate the fund will be charged. With bank deposits in Thailand paying more than 10 per cent and the market down 14 per cent on the year, bargaining is hard. Once the cash is in hand, managers plan to be careful. "We won't invest against the market," says Mr Vicharat Vichit-Vadakan, chairman of the Association of Securities Companies. "The entrance of the fund should not be used as mechanism for investors to exit the market."

HONG KONG

Summer doldrums are expected to grip the market this week, with turnover shrinking and share prices drifting lower, *writes Louise Lucas*. Meanwhile, the few stocks targeted by big buyers or sellers are likely to be volatile in a period of thin volume. Brokers reckon the market, which gained 1.3 per cent last week, will be unable to sustain its strength in the absence of fresh news. Several smaller companies report interims and Bank of East Asia, the colony's third biggest listed bank, announces its interim results tomorrow. Analysts are expecting a strong performance after HSBC Holdings and associate Hang Seng Bank trumped market forecasts with their results last week.

Brokers will also be watching the halfway numbers from Jilin Chemicals, one of the biggest Hong Kong-listed China companies, which reports interims today.

Summer jitters over Emu poised to continue

In the absence of any important policy events in the diary, markets look set this week to maintain their traditional summer focus on European monetary union.

A pattern has developed over recent years, whereby currency tensions have often been at their most marked during the quiet summer months.

Last week was no exception to the pattern, with markets feeding off a steady diet of rumours about the French franc.

A combination of speculation about whether France could meet the Maastricht convergence criteria, rumours about a Franco-German sanctioned delay of Emu, and gossip about the position of Mr Jean-Claude Trichet, governor of the Bank of France, drove the franc to a four-month low.

The stronger D-Mark put most European currencies under pressure, and a number of central banks were reported in the market to be supporting their currencies. More of the same can be expected, although the extent of current moves remains a long way short of a serious currency crisis.

Another factor which may influence European currencies is the expected release of a report on European banking payments mechanisms by the European Monetary Institute. This has been a cause of friction between the UK and some of its partners.

In the US, traders will be focusing on the main data – CPI and retail sales – and the Republican party convention in San Diego. The data are expected to be soft, and look unlikely to upset asset markets ahead of the next policy meeting of the US Federal Reserve on August 20.

Markets have backed away from expectations of higher interest rates, which damaged equities and the dollar earlier last month.

As far as the Republicans are concerned, there has been little evidence to date of the US presidential contest affecting the dollar. Markets have generally responded well to the Greenspan/Rubin stewardship of the dollar, and will see little need for change.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Investor Group (Intl)	Hazlewood (Australia)	Power	$1.9bn	Victoria continues privatisations
Moore Group (Canada)	Wallace (US)	Comp. services	$1.4bn	Chase abandoned
Kerry Group (HK)	CCA (Australia)	Bottling	$518m	Kuok takes 9%
Agip (Italy)	Unit of Sun Oil (US)	Oil & gas	$260m	Growing North Sea presence
First Nat Bldg Soc (Ire)	The Mortgage Corp (UK)	Fin. services	$83m	Salomon disposal
J Sainsbury (UK)	Giant Food (US)	Retailing	$62m	Stake nears 20%
CEME (US)	Nova TV (Czech Republic)	Broadcasting	$38m	Stake now 88%
Boosey & Hawkes (UK)	Rico Intl (US)	Music	$28m	Cash buy
Cash Converters Int (Australia)	Cash Converters UK	Retailing	$25m	Cash/paper deal
TI Group (UK)	Unit of Alcan (US)	Components	$24m	Brazilian buy

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, August 9, 1996. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7360.13	4750.00	3212.53	4393.47
Albania	(Lek)	168.361	108.655	73.4950	100.500
Algeria	(Dinar)	85.5362	55.2024	37.3393	51.0680
Andorra	(French Fr)	7.8312	5.0540	3.4186	4.6747
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Greece	(Drachma)	366.565	236.570	160.018	218.813
Greenland	(Danish Krone)	8.8632	5.7200	3.8690	5.2907
Grenada	(E Carib $)	4.1837	2.7000	1.8263	2.4974
Guadeloupe	(Local Fr)	7.8312	5.0540	3.4186	4.6747
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oman	(Rial Omani)	0.5965	0.3850	0.2604	0.3561
Pakistan	(Pak. Rupee)	54.8130	35.3746	23.9278	32.7194
Panama	(Balboa)	1.5495	1	0.6764	0.9249
Papua New Guinea	(Kina)	2.0229	1.3055	0.8830	1.2075
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

ATHENS STOCK EXCHANGE August 2nd - August 9th 1996 GREECE

ASE INDEX	978.20	P/E (after tax) 96e/95e	11.0 / 11.8	GDP (USD bn) 96e	123.15
%Chg (2/1/96)	-3.04	EPS GROWTH (%) 96e	9.2	Per Capita Income (USD)	11,550
Yearly High	1028.02	P/E 96e/EPS GROWTH (%) 96e	1.20	Inflation Rate (% Y.O.Y, July 96)	8.80
Yearly Low	874.45	P/CE 96e/95e	8.5 / 8.8	July 12 M T-Bill rate (%)	12.80
WEEKLY VOL. (USD m)	74.03	P/BV 96e/95e	2.3 / 2.7	1-Month Athibor (%)	13.82
%Chg (Prev. Wk)	-39.64	Div. Yield (%) 96e/95e	5.0 / 4.8	GRD/US$	236.53
1 Y Wk Avg. (USD m)	146.48			A.S.E. Market Capitalisation - 09/8/96 (USD bn)	23.29
				IPOs & Rights Issues (in USD m) Jan 1 '96-Aug 9 '96	547.81

MARKETS: This Week

EMERGING MARKETS By Sean Evers

Privatisation sets Egypt alight

After years of slow growth and gradual adjustment to market disciplines, Egypt has finally ignited its privatisation programme. President Mubarak may be seeing the realisation of his prophecy, that "1996 would be the year of the breakthrough" in attracting much-needed foreign investment.

Local brokerage houses claim the "breakthrough" came on May 7, when the government sold a 75 per cent stake in the highly-profitable Medinet Nasr Housing & Development Company. This was the first sale, through the stock exchange, of a majority stake in a state company – and it turned the market.

A total of 43 foreign institutions and investment funds, including 29 from the US, applied for shares in Medinet Nasr. The transaction raised E£585m ($172m).

"Privatisation is no longer a pornographic word on the sensitive streets of Cairo," according to one World Bank official, who believes this has allowed the government to accelerate the programme.

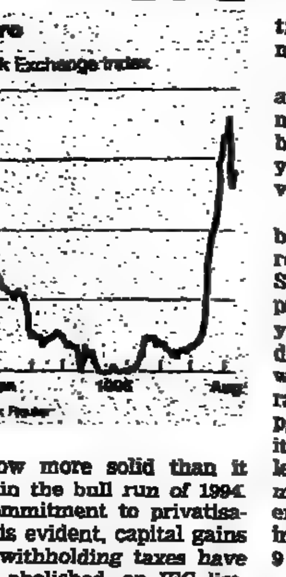
Foreign portfolio investors have more than tripled their share of activity on the Egyptian stock exchange in the first half of 1996, up from just 6 per cent of the E£3.8bn ($1.1bn) traded during 1995 to 20 per cent of the E£3.3bn traded from January to June this year.

After a bull year in 1994, the market sobered up during 1995 because of stagnation of the privatisation programme, a withdrawal from International Monetary Fund agreed commitments to lower tariffs on imported goods, and hesitation on investor-friendly legislative reform. But although foreign investors remained on the sidelines, they were warming up for action.

"We just needed to get enough of a consensus, enough of an understanding of the process of privatisation in Egypt; we have now passed a point of no return," said Mr Youssef Boutros-Ghali, Egyptian state minister for economic affairs. Since the spring turnround, overall market capitalisation has grown by some E£5bn to E£32bn, with the focus on the 40 or so actively traded stocks.

Mr Aladdin Saba, managing director at EFG-Hermes, the largest brokerage house in Cairo, says: "Investors are coming in – both foreign and local – due to fundamental reasons, starting with a very stable macroeconomy." Inflation has been brought down to below 8 per cent this year from 19.7 per cent in 1991, and the budget deficit was down to 1.5 per cent of gross domestic product in 1994-95 from double-digit levels in the early 1990s.

The macroeconomic base is now more solid than it was in the bull run of 1994. A commitment to privatisation is evident, capital gains and withholding taxes have been abolished, an IFC listing is due next month, as is an IMF agreement.



In the 10 months before the majority sale of Medinet Nasr, the government had only floated three minority stakes in state companies. However, since May 7, it has offered equity in nine companies via the exchange, and three in strategic sales, out of which six have been majority stake offers. These stocks have experienced an average growth of 31.5 per cent from their issue price.

Merrill Lynch acknowledges that "there are many good reasons not to buy in an inexpensive market, but we are hard pressed to identify what those reasons might be here [in Egypt]".

It has recently been announced that stakes in 39 more state companies would be sold before the end of the year, with an estimated value of $1bn.

"Cairo is currently the best value for money in the region," according to Mr Saba. It has a single-digit price/earnings ratio and high yields, compared with Jordan, Morocco or Tunisia, which have double-digit p/e ratios and low yields. Cairo's p/e ratio is under 8, putting it at about one-third of the level of the IFC's emerging market composite index. It enjoys 11.5 per cent earnings-per-share growth, and a 9 per cent dividend yield.

The IMF reform package aims to nearly double the economic growth rate to 8 per cent, and increase foreign reserves to $22bn.

Mr Arvind Subramanian, the IMF representative, points out that it will "involve trade liberalisation, deregulation, strengthening and deepening of the financial system, and the modernisation of the fiscal system".

Mr Albert Momdjian, head of the Middle East desk at HSBC James Capel, believes the current run "is definitely going to continue". He has set up the first Egyptian country fund, a closed fund worth $46m. "Cairo is a totally open market – foreign investors can come and go as they please, but they are staying because this is a very undervalued market."

EFG-Hermes is due to launch an open Egypt country fund shortly, with Martin Currie, the Scottish investment house, acting as advisers.

This week's downturn in the Egyptian stock market has been welcomed as a "very healthy" sign, a technical correction after a July rise of 15.4 per cent. Mr Momdjian of HSBC "is taking advantage of the present weakness to buy", mainly from small local investors who are cashing in on up to 50 per cent gains in recent privatisations. He expects a correction of some 5 per cent before the market rises again.

ING BARING SECURITIES EMERGING MARKETS INDICES

Index	9/8/96	Week on week movement Actual	Week on week movement Percent	Month on month movement Actual	Month on month movement Percent	Year to date movement Actual	Year to date movement Percent
World (431)	158.03	+1.24	+0.79	-5.74	-3.50	+10.47	+7.09
Latin America							
Argentina (22)	95.59	+3.84	+4.18	-3.20	-3.24	+2.81	-0.03
Brazil (23)	239.05	+0.98	+0.41	-5.57	-2.67	+52.98	+26.46
Chile (16)	190.49	+0.50	+0.28	-9.94	-4.96	-5.18	-2.65
Colombia (14)	170.83	+4.29	+2.58	+5.53	+3.34	+6.58	+4.01
Mexico (24)	82.00	+2.09	+2.62	+2.37	+2.97	+8.40	+11.42
Peru(13)	1,181.99	+2.94	+0.25	+2.20	+0.19	+113.04	+10.58
Latin America (112)	140.40	+2.00	+1.45	-1.94	-1.36	+17.26	+14.02
Europe							
Greece (18)	107.94	-1.17	-1.07	-2.00	-1.81	+8.97	+10.18
Portugal (20)	137.15	+1.34	+0.99	+3.22	+2.41	+20.70	+17.77
Turkey (25)	102.86	-2.29	-2.18	-15.22	-12.89	+20.06	+24.22
South Africa (30)	135.40	-1.92	-1.40	-12.74	-8.60	-17.98	-11.72
Europe (134)	118.05	-0.97	-0.81	-7.91	-6.26	-3.48	-2.86
Asia							
China (24)	44.54	+1.06	+2.44	-0.11	-0.24	+4.21	+10.45
Indonesia (31)	132.42	-4.45	-3.25	-7.99	-5.69	-6.23	-4.49
Korea (23)	109.74	+1.06	+0.97	-6.01	-5.19	-27.17	-19.84
Malaysia (28)	252.32	+5.05	+2.04	-5.57	-2.16	+24.96	+10.98
Pakistan (14)	78.29	-0.99	-1.26	-10.11	-11.44	+4.66	+6.38
Philippines (14)	314.71	-11.72	-3.59	-25.92	-7.06	+55.54	+21.40
Thailand (25)	211.33	+2.13	+1.02	-25.57	-10.79	-40.56	-16.10
Taiwan (31)	175.42	+5.35	+3.15	-0.50	-0.28	+44.60	+34.09
Asia (185)	215.30	+2.03	+0.95	-9.22	-4.11	+12.25	+6.03

All indices in $ terms, January 7th 1993=100. Source: ING Baring Securities.

INTERNATIONAL BONDS By Antonia Sharpe and Peter John

Unseasonable flurry of issues set to continue

The eurobond market usually grinds to a halt in August, as investors and borrowers leave their offices *en masse* for their summer holidays. But this year, the market is turning out to be unseasonably lively.

The unexpected flurry of eurobond issuance last week, from high-quality names such as Germany's KfW and Abbott Laboratories, was prompted by the sudden change in sentiment in the US Treasury market the previous Friday.

Fears that the Federal Reserve would raise rates this month had led many investors either to retreat completely from the market, or to take refuge in short-dated bonds on which the impact of a rate rise would be less severe than at the long end of the yield curve.

However, the release of data showing subdued US employment growth data turned this defensive strategy into a costly mistake because investors missed out on the ensuing rally in Treasuries.

"The rally in US treasuries shook investors up," said one trader. In a bid to make up some of the gains they had missed, investors sought to extend the duration of their holdings last week, because longer-dated bonds tend to perform better than the short end when the market swings upwards.

But finding eurobonds to buy proved difficult at the start of the week because of the limited supply of 10-year dollar paper this year. KfW's $400m offering of 10-year eurobonds on Tuesday was the first large 10-year dollar eurobond for five months.

The supply-demand imbalance caused yield spreads on outstanding eurobonds to tighten, a development which syndicate managers believe should encourage more borrowers to tap the market.

By the end of last week, the World Bank's bonds due 2005 were trading at about 15 basis points over Treasuries, compared with about 20 basis points a few weeks earlier, while Finland's bonds due 2006 had come in to about 30 basis points from 37 basis points.

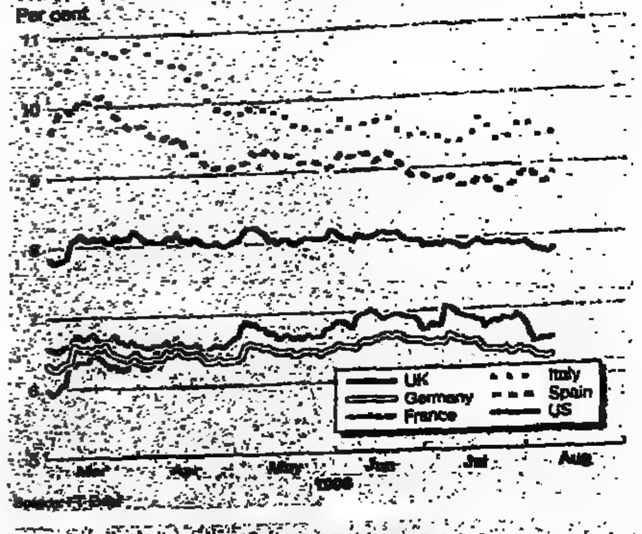
The pent-up demand from investors has raised expectations that the eurobond market will be equally busy this week. Bayerische Landesbank is set to launch a $500m five-year eurobond offering as early as today, at 13–15 basis points over Treasuries, while Fannie Mae, Tennessee Valley Authority and the World Bank have been rumoured as possible issuers of $1bn offerings of 10-year global bonds.

Investor demand has not been confined to the dollar sector. Last week the Swiss franc sector was unusually busy, with eight issues totalling SFr1.3bn being launched. The strength of demand for Sweden's SFr200m 10-year deal surprised many syndicate managers, considering the dominance of retail investors (who prefer shorter maturities) in this sector.

Syndicate managers said Sweden opted for the 10-year maturity because of the favourable swap opportunities and strong institutional investor appetite for this maturity.

Borrowers are also looking at the D-Mark sector, where investors are unlikely to see any new benchmark bunds before the end of the year.

AS



INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.00	0.50	2.50	4.75†	8.25	5.75‡
Overnight	5.06	0.47	3.25	3.50	8.06	5.75
Three month	5.14	0.50	3.23	3.93	8.84	5.81
One year	5.57	0.87	3.40	4.15	8.49	5.88
Five year	6.24	2.19	5.11	5.64	8.96	7.24
Ten year	6.50	3.20	6.27	6.40	9.32	7.79

† Pension Repo rate. ‡ UK Base rate. Source: Reuters.

Argentina returns with $500m FRN

Argentina's return to the eurobond market last Wednesday with a $500m offering was not in itself spectacular, reflecting little more than the continuation of the country's medium-term note programme. But it did provide pointers to the tone of the $2,740bn market in emerging economy debt, and perceptions of Argentina in particular.

First, it was issued as a floating rate note. Coming on the back of Mexico's recent $6bn FRN issue, it was further confirmation that global markets remain convinced of an upward trend in US interest rates. FRNs offer protection against the erosion of yield that takes place once rates begin to pick up.

Second, the discounted price margin on the three-year notes was only 274 basis points over Treasuries, compared with 330 for benchmark Argentine paper immediately after the resignation last month of Mr Domingo Cavallo, the country's economy minister. The narrowing of the spread pointed to improving confidence in Mr Cavallo's successor, Mr Roque Fernández.

Finally, it was a reminder that Argentina will have to come up with a fiscal package early this week that will please the International Monetary Fund when it arrives in a week's time.

Pressure has been increased by a general strike against a policy of fiscal tightening which brought the country almost to a standstill last Thursday.

Mr Peter West, economic adviser for WestMerchant Bank, says: "Argentina is caught between a rock and a hard place. Its deficit is $1bn greater than targeted under the IMF programme, but it needs to boost economic activity and employment."

Nevertheless, debt prices reflected the continued desire for high yielders. Argentine Brady bonds quoted in London rose 25 basis points to to 77.81 cents in the dollar, up nearly four cents since the beginning of the month.

Mr Jerome Booth, head of emerging market research at ANZ, remains confident about prospects for Argentine bonds – the worst performers in the Brady market this year. "Mr Cavallo's demise has already started to provide benefits, giving rise to a more realistic assessment of the current economic predicament and the promise of greater co-operation from Congress. The combination could soon start to reap dividends."

PJ

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
Auto region of the Americas‡	65	Aug 2006	(a)	99.76R	-	-	CS First Boston
KfW International Finance	400	Aug 2006	6.875	99.541R	6.926	+28(6½% 10yr)	Deutsche/Goldman
SM Prime Holdings	150	Feb 2002	8.125§	99.281R	8.294	+200(6⅝%-01)	JP Morgan Securities
Korea First Bank‡	120	Aug 1999	(b)	100.00R	-	-	Goldman Sachs Intl
Harvest Paper(i)§	50	Aug 2006	6.25	100.00	-	-	JP Morgan Securities
MMCCT 2, 96-H, Cls A(c)‡	1.08bn	Aug 2001	(c1)	100.00R	-	-	Goldman Sachs & Co
Republic of Argentina‡	500	Aug 1999	(d)	99.69R	-	-	JP Morgan Securities
Cho Hung Bank‡	200	Aug 1997	(e)	100.00	-	-	BZW
Banco Noroeste	60	Aug 1999	10.75§	99.75R	10.85	+475(6%-99)	BZW
Abbott Laboratories	250	Sep 2001	6.50	99.712R	6.569	+17(6⅝%-01)	Goldman Sachs Intl
Bayerische Vereinsbank(f)	200	Sep 2006	6.375	99.834R	6.423	+10(j)	ABN Amro Hoare Govett/Paribas
D-MARKS							
Banca di Roma(London)(g)‡	250	Sep 2001	(h1)	100.05R	-	-	BNP Frankfurt Branch
Philips Electronics	300	Aug 2001	6.00	99.45R	5.765	+68(6¼%-01)	BNP Frk/Dresdner KB
CCCMT I, 96-4, Cls A(k)‡	100	Aug 2001	(k1)	99.91R	-	-	Goldman Sachs Frt
LAS No 1(l)	4bn	Aug 2006	6.25	(l1)	-	-	(l2)
YEN							
Nissho Iwai Corp(i)§	20bn	Sep 2003	0.25§	100.00	-	-	Nomura International
Intl Finance Corp(g)★	10bn	Aug 1999	5.00	99.4725	-	-	Daiwa Europe
SWISS FRANCS							
DO Intl, Cayman(a)★§	221	Aug 2000	0.875	100.00	-	-	UBS
Rheinhyp Finance	200	Sep 2002	4.25	101.125	3.029	-	Swiss Bank Corp
Statoil	200	Sep 2001	4.125	103.20	3.478	-	Credit Suisse/Merrill
LW Rentenbank(t)	100	Sep 2002	4.125	102.70	3.612	-	Zürcher Kantonalbank
Kingdom of Sweden	200	Sep 2006	4.50	102.40	4.201	-	UBS
Walt Disney Co(t)	125	Dec 2000	4.00	102.875	-	-	Credit Suisse/Merrill
DSL Bank	200	Sep 2006	4.50	102.60	4.182	-	SBC Warburg
Australian Industry Dev Corp	150	Sep 2003	4.25	103.00	3.755	-	ABN Amro/C Sabow
Bayerische Landesbank(t)	150	Dec 2000	3.75	102.55	-	-	UBS
GUILDERS							
Rabobank Nederland	250	Sep 2001	5.375	99.88R	5.397	+6.4(j)	Rabobank Nederland
FRENCH FRANCS							
Merrill Lynch & Co	1.5bn	Aug 2002	8.125	99.868R	8.152	+41(j)	CDC/Merrill/SocGen
LUXEMBOURG FRANCS							
BGB Finance Ireland(i)	2bn	Dec 2002	6.00	102.75	5.46	-	Crédit Européen-BBL
Oregon International Bank(a)	2bn	Jan 2002	5.75	102.45	5.25	-	BIL
LB Rheinland-Pfalz(i)	3bn	Dec 2001	5.625	102.25	5.11	-	BGL
Bacob Overseas(i)	3bn	Dec 2001	6.00	102.55	5.42	-	Bacob Bank Lux
Nordic Investment Bank(i)	2bn	Dec 2004	6.25	102.40	5.87	-	BIL/Crédit Européen
Arbed(i)	2bn	Dec 2003	6.75	102.625	6.28	-	BCEE/BGL
AUSTRALIAN DOLLARS							
Bayerische Vereinsbank	100	Sep 2001	7.50	100.505	7.378	-	Hambros Bank
Merrill Lynch & Co‡	100	Aug 1998	(s)	100.00	-	-	Merrill Lynch Intl
DANISH KRONER							
Great Belt(i)	600	Dec 2008	6.875	101.65	6.67	-	Den Danske Bank
ESCUDOS							
Ford Credit Europe‡	10bn	Sep 2002	(t)	100.00	-	-	Banco Chif
IRISH POUNDS							
Ulysses Securitisation(u)	50	Aug 2008	7.625	99.844R	7.795	+23(8%-08)	UBS

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ¶With equity warrants. ★Unlisted. #Semi-annual coupon and yield. R: fixed re-offer price. a) Denom: SFr50,000 +50 note warrants into Daiwa Denmol shares at Y685. FX: 90.46Y/SFr. b) Conv price: Y551. Callable from 1/10/97 subject to 130% rule. Callable & puttable on 30/9/98 at par. Refixing clause effective 7/9/98, max 80%. c) 6-mth Libor +15bp. d) Callable on 2/9/00 at par. d1) 3-mth Libor +⅛%. e) 6-mth Libor +30bp. f) Conv price: Won 30,300. FX: 814.30 Won/$. Puttable on 14/8/01 at 128.25%. Callable from 14/8/97 subject to 130% hurdle rising 5%pa to 145% after 4 years. g) Repaid in US$. h) Fungible with SFr100m. Plus 20 days accrued. i) Over interpolated yield. [illegible] Card Trust. Legal maturity: 2004. k1) 3-mth Libor +10bp. k2) Class B: [illegible], expected maturity Sep01. 3-mth Libor +27bp. perfl. l) Long 1st coupon. m) 3-mth Libor +270bp. n) 3-mth Libor +17½bp. o) 3-mth bank bills +15bp. q) Fungible with E£140m. Plus 4 days accrued. r) Citibank Credit Card Master Trust. Legal maturity: 18/8/03. r1) 2-mth Libor +7bp. r2) Class B notes were privately placed. s) Short 1st coupon. t) Jointly issued by German states: Berlin, Hamburg, Hesse, North Rhine-Westphalia, Rheinland-Palatinate, Saxony-Anhalt and Schleswig-Holstein. (1) Priced on Monday to yield 17bp over [illegible]. (2) Joint books: ABN Amro, Commerzbank, DG Bank, Dresdner, Deutsche, LB Hessen-Thüringen, Paribas, UBS, Trinkaus and WestLB. Note: Yields are calculated on ISMA basis.

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Aug 9		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.1181	−0.0898	118 - 244	16.2288	16.1105	16.0868	2.3	16.0178	2.6	-	-	105.6
Belgium	(BFr)	47.2241	−0.1959	072 - 410	47.5110	47.0800	47.1291	2.4	46.9391	2.4	46.1401	2.3	107.5
Denmark	(DKr)	8.8632	[illegible]	391 - 872	8.9160	8.8580	8.8495	1.9	8.8292	1.5	8.7213	1.6	108.2
Finland	(FM)	6.8946	−0.043	874 - 017	6.9480	6.8840	6.8902	0.8	6.8821	0.7	-	-	86.1
France	(FFr)	7.8312	−0.0089	281 - 342	7.8649	7.8279	7.819	1.9	7.7962	1.8	7.7025	1.6	109.2
Germany	(DM)	2.2907	−0.0097	897 - 917	2.3061	2.2894	2.2865	2.3	2.2772	2.4	2.2365	2.3	109.7
Greece	(Dr)	368.565	−0.977	417 - 714	368.391	366.275	-	-	-	-	-	-	67.3
Ireland	(I£)	0.9627	−0.0007	621 - 632	0.9651	0.9620	0.9622	0.6	0.961	0.7	0.9585	0.6	99.4
Italy	(L)	2355.55	+1.01	416 - 694	2360.59	2351.31	2361.1	−2.8	2370.95	−2.8	2403.45	−2.0	78.0
Luxembourg	(LFr)	47.2241	−0.1959	072 - 410	47.5110	47.0800	47.1291	2.4	46.9391	2.4	46.1541	2.3	107.5
Netherlands	(Fl)	2.5711	−0.0114	698 - 724	2.5871	2.5695	2.565	2.8	2.553	2.8	2.5053	2.6	107.7
Norway	(NKr)	9.9099	−0.0224	022 - 176	9.9654	9.8644	9.9014	1.0	9.8844	1.0	9.8008	1.1	98.5
Portugal	(Es)	235.664	−0.774	540 - 787	237.110	235.451	236.089	−2.2	236.894	−2.2	-	-	95.7
Spain	(Pta)	195.105	−0.279	044 - 166	196.074	194.978	195.365	−1.6	195.89	−1.6	197.28	−1.1	80.5
Sweden	(SKr)	10.3090	+0.0154	008 - 173	10.3348	10.2727	10.3093	0.0	10.3094	0.0	10.3073	0.0	88.4
Switzerland	(SFr)	1.8653	−0.0113	643 - 665	1.8701	1.8642	1.8603	3.2	1.8495	3.4	1.8013	3.4	113.1
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	84.6
Ecu	-	1.2213	−0.0019	207 - 219	1.2289	1.2197	[illegible]	1.3	1.217	1.4	1.2037	1.4	-
SDR†	-	1.059000	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5474	−0.0001	469 - 478	1.5536	1.5462	-	-	-	-	-	-	-
Brazil	(R$)	1.5674	+0.0003	669 - 679	1.5707	1.5630	-	-	-	-	-	-	-
Canada	(C$)	2.1263	+0.0014	255 - 271	2.1318	2.1248	2.1256	0.4	2.122	0.8	2.1135	0.6	85.8
Mexico	(New Peso)	11.6515	−0.024	453 - 576	11.6846	11.6420	-	-	-	-	-	-	-
USA	($)	1.5495	−0.0001	492 - 498	1.5536	1.5458	1.5489	0.5	1.5486	0.3	1.546	0.0	95.1
Pacific/Middle East/Africa													
Australia	(A$)	1.9900	+0.0013	890 - 910	1.9974	1.9885	1.9926	−1.5	1.9978	−1.6	2.0229	−1.7	91.3
Hong Kong	(HK$)	11.9897	+0.0027	866 - 928	12.0204	11.9849	11.9816	0.8	11.97	0.7	11.9502	0.3	-
India	(Rs)	55.3172	−0.0811	968 - 378	55.6500	54.9020	-	-	-	-	-	-	-
Israel	(Shk)	4.8699	−0.0036	660 - 738	4.8984	4.8685	-	-	-	-	-	-	-
Japan	(Y)	167.524	−0.089	438 - 611	168.380	167.260	166.799	5.2	165.309	5.3	158.294	5.2	134.1
Malaysia	(M$)	3.8595	−0.0004	580 - 610	3.8698	3.8573	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2514	−0.0014	501 - 526	2.2573	2.2500	2.2564	−2.7	2.2658	−2.5	2.2967	−2.1	107.5
Philippines	(Peso)	40.5892	−0.0026	271 - 513	40.7250	40.4474	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.8121	+0.0002	106 - 136	5.8274	5.8099	-	-	-	-	-	-	-
Singapore	(S$)	2.1938	−0.0034	926 - 950	2.2025	2.1914	-	-	-	-	-	-	-
South Africa	(R)	7.0278	+0.0081	225 - 330	7.0379	7.0029	-	-	-	-	-	-	-
South Korea	(Won)	1261.99	+0.23	167 - 231	1265.17	1261.60	-	-	-	-	-	-	-
Taiwan	(T$)	42.5570	−0.0958	410 - 730	42.7340	42.5405	-	-	-	-	-	-	-
Thailand	(Bt)	39.2124	−0.008	025 - 223	39.3300	39.1970	-	-	-	-	-	-	-

† Rates for Aug 8. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

[illegible]

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

THREE MONTH EURODOLLAR (IMM) $1m points of 100%

[illegible]

US TREASURY BILL FUTURES (IMM) $1m per 100%

[illegible]

All Open interest figs. are for previous day

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

D-MARK FUTURES (IMM) DM 125,000 per DM

[illegible]

SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

[illegible]

JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

[illegible]

STERLING FUTURES (IMM) £62,500 per £

[illegible]

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

Pound in New York

[illegible]

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Markets page in today's edition.

FT GOLD MINES INDEX

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	High	Low	Stock	Closing price p	+or-
100	Nil	15/8	9pm	1pm	Inspirations 7.7% Pf	7pm	
40	Nil	23/8	10pm	4pm	Ivernia West Uts	4pm	−1
68	Nil	28/8	3pm	2pm	Jerome (S)	2pm	
250	Nil	16/8	12pm	10pm	Lorien	12pm	+2
250	Nil	30/8	54pm	54pm	Scottish Power	54pm	+2
125	Nil	28/8	13pm	12pm	Shaftesbury	13pm	+1

pm premium.

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

UK clearing bank base lending rate 5¾ per cent from June 6, 1996

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

BASE LENDING RATES

[illegible]

BANK RETURN

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

STOCK INDICES

[illegible]

Shin-Etsu

Notice to the Bondholders of

Shin-Etsu Chemical Co.,Ltd.

(the "Company")

U.S. $30,000,000 3 per cent. Convertible Bonds Due 2000

(the "Bonds")

Pursuant to Clause 7(E) of the Trust Deed dated 4th March, 1985 and Condition 12 of the Terms and Conditions of the Bonds, you are hereby notified that the Company has issued U.S. $500,000,000 3 3/8 per cent. Notes due 2000 with Warrants on 8th August, 1996 (London time) and also Yen 50,000,000,000 convertible debentures due 2005 on 8th August, 1996 (Japan time) at the initial Exercise Price and Conversion Price of both Yen 1,917 per share which is less than the respective current market prices per share of Yen 2,155.0 and Yen 2,112.7 calculated as provided in the Trust Deed.

As a result of the issue of the above Notes with Warrants, the Conversion Price of the Bonds is adjusted as follows:

(i) Conversion Price before adjustment: Yen 1,128.6
(ii) Conversion Price after adjustment: Yen 1,119.0
(iii) Effective Date: 8th August, 1996 (Japan time)

Furthermore, as a result of the issue of the above convertible debentures, the Conversion Price of the Bonds is adjusted as follows:

(i) Conversion Price before adjustment: Yen 1,119.0
(ii) Conversion Price after adjustment: Yen 1,112.2
(iii) Effective Date: 9th August, 1996 (Japan time)

Shin-Etsu Chemical Co.,Ltd.
By: The Dai-Ichi Kangyo Bank, Limited
As Principal Paying Agent

Dated: 12 August, 1996

ASFINAG

Autobahnen- und Schnellstraßen-Finanzierungs-Aktiengesellschaft

[illegible] been fixed at 5.43906% per annum. The interest accruing for such three month period will be U.S. $143.53 per U.S. $10,000 Bearer Note, and U.S. $1,435.31 per U.S. $100,000 Bearer Note, on 12th November, 1996 against presentation of Coupon No. 16.

Union Bank of Switzerland
London Branch Agent Bank

7th August, 1996

U.S. $100,000,000

CCF

Crédit Commercial de France

[illegible] 1997 the Notes will carry an Interest Rate of 5.4375% per annum. The interest payable on the relevant interest payment date, February 12, 1997 will be U.S. $27.79 per U.S. $1,000 Note, U.S. $277.92 per U.S. $10,000 Note, U.S. $2,779.17 per U.S. $100,000 Note.

By: The Chase Manhattan Bank
London, Agent Bank

August 12, 1996 CHASE

LEGAL NOTICES

NOTICE OF APPOINTMENT OF JOINT ADMINISTRATIVE RECEIVERS

COLORVISION PLC

T/A: COLORVISION

Registered No: 861663

NOTICE IS HEREBY GIVEN, that D.K. Duggins and J.J. Gleave, of Arthur Andersen, 1 Victoria Square, Birmingham B1 1BD, were appointed Joint Administrative Receivers of the above named company on 31st July 1996 and again on 1st August 1996, by H.F.C. Bank plc.

D.K. Duggins,
J.J. Gleave,
Joint Administrative Receivers.

LEGAL NOTICES

INSOLVENCY ACT 1986

CHAPMANS DRUMS LIMITED

(IN ADMINISTRATIVE RECEIVERSHIP)

NOTICE IS HEREBY GIVEN pursuant to Section 48 of the Insolvency Act 1986 that a Meeting of the unsecured Creditors of the above named Company will be held at The Law Society Rooms, 8 Campo Lane, Sheffield on 23 August 1996 at 10.30am, for the purposes mentioned in Section 48 and 49 of the said Act.

Creditors whose claims are wholly secured are not entitled to attend or be represented at the meeting. Other creditors are only entitled to vote if:-

a) they have given to the Joint Administrative Receivers, not later than 12.00 hours on the business day before the day on which the meeting is to be held, details in writing of the debts that they claim to be due to them from the Company, and the claim has been duly admitted under the provisions of Rule 3.11 of the Insolvency Rules 1986; and

b) there has been lodged with the Joint Administrative Receivers any proxy which the creditor intends to be used on their behalf.

Dated August 8 1996

DAVID JOHN STOKES and MICHAEL JOSEPH MOORE
Joint Administrative Receivers

NOTE Creditors of the Company requiring copies of the Joint Administrative Receivers' report may obtain it free of charge, on written application to the Joint Administrative Receivers at Coopers & Lybrand, 1 East Parade, Sheffield S1 2ET.

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	W'k% ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
Allied Domecq	♣♦N	448	-9	Q29.5	1.1	Feb Jul	20.5	1559
Bulmer (HP)	♣	583xd	-2	13.2	2.3	Feb Sep	29.7	2005
Burn St Dist	♣	101	—	8.8	0.9	May Nov	22.4	1518
Glenmorangie A		705	—	12.0	3.3	Jan Jul	17.6	3257
Grand Met	♣†	480½xd	0.8	15.25	1.5	Apr Oct	22.7	2789
Guinness	♣♦	471	0.2	14.9	2.1	May Nov	1.4	2791
Highland	♣†	369	-1.1	8.8	2.7	Jan Jun	7.5	2880
Kirin Y		723¼	-4.3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Macallan-Glen	♣	183	—	1.45	3.3	May Nov	15.4	3234
Matthew Clark	♣	697xd	2.5	24.0	0.7	Apr Oct	22.7	2153
Merrydown	♣	121xd	0.8	4.9	ф	Jan Oct	15.7	3362
Seagram S		622¾	2.8	Q60c	—	MrJnSeDe	3.93	—

BANKS, MERCHANT

	Notes	Price	W'k% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Bannos Bec Cm 2nd Prf		681½	—	8%	—	Jan Dec	17.94	1757
Cater Allen	♣	423	—	30.0	1.1	Jan Aug	6.7	2087
Close Bros	♣†	337	1.8	9.85	2.5	Apr Nov	11.3	2188
Gerrard & Nat	♣	340	0.6	23.0	1.4	Jul Dec	24.6	2586
Hambros		238xd	—	7.5	—	Aug Dec	17.6	2812
7½pc Cv Pf		118½	—	7½%	—	Apr Oct	25.2	4388
King & Shaxson	♣	165	-1.2	9.0	1.1	Jan Aug	1.7	3868
Leopold J	♣	448	7.2	18.5	1.4	Jan Sep	11.12	3060
Rea Brothers	♣	50	—	1.0	2.1	May Sep	1.4	3785
Schroders	♣	1328	3.8	16.0	4.5	May Oct	25.3	3839
NV		995	2.6	16.0	4.5	May Oct	25.3	3841
Singer & Fried	♣	113½	4.6	4.0	3.0	Jan Nov	29.4	4026
8½pc Cv Ln 08/14		£133½	2.9	Q8½%	—	—	25.3	4046
Union	♣	99	1.0	3.0	3.1	Apr Sep	2.3	4353

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

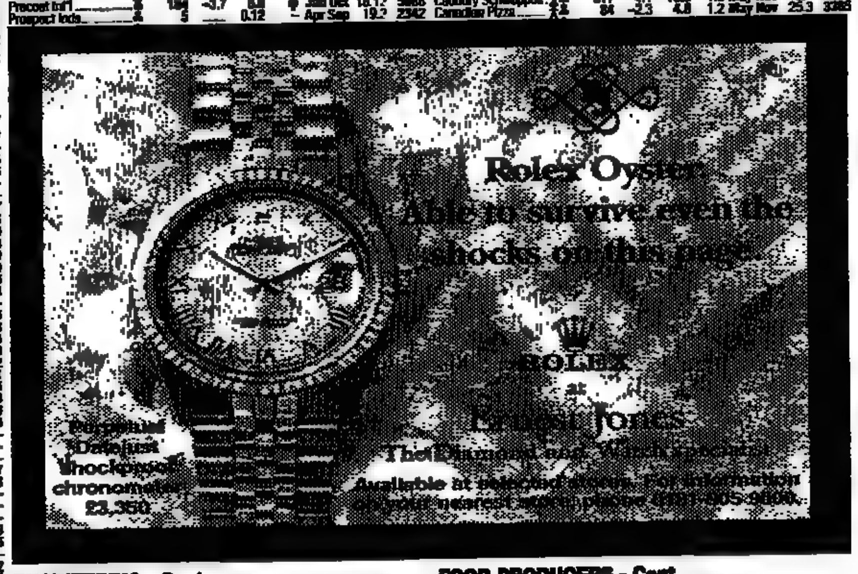
DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING



ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

FOOD PRODUCERS - Cont.

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

HOUSEHOLD GOODS - Cont.

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

صحكنا من الاجمل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL, EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER FINANCIAL - Cont.

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Ideal, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are calculated on a "net" basis.

Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Figures or report awaited
- Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- Rule 4.2(a) Irish incorporated non-listed companies.
- Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- Merger bid or reorganisation in progress
- Forecast dividend; cover based on earnings updated by latest interim statement.
- Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. d Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. o Rights issue pending q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1996-97. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1995 K Dividend based on prospectus or other official estimates for 1996 L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1995-96 N Dividend is paid in whole or part as a FID (Foreign Income Dividend). Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: TR Pacific C (Inv Trusts), Quintain Ests & Dev (Property), BATM Adv Comms, Hat Pin, Solid State Supplies, UNO, Xavier Computer (AIM). Deletions: Schroder Med Fund (Inv Trusts), Gus Carter (Leis & Hotels).

♣ FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣ . Please quote the code FT1343. Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports will be sent the next working day, subject to availability.

FT Company Focus / Focus Plus

Comprehensive 10-16 page report available on this company, containing key news stories from the last year, latest survey of City profit forecasts and investment recommendations, 5 year financial and share price performance review, balance sheet and profit and loss data, plus recent Stock Exchange announcements.
Company Focus (FT news) £8.45.
Focus Plus (FT and Investors Chronicle news) £8.95.
To order, call 0121 200 4678.
Reports published by ShareFinder Ltd.

FT Cityline

For up-to-the-second share prices call FT Cityline on 0336 43 or 0891 43 followed by the four-digit code listed after the share price. Calls charged at 39p per minute cheap rate and 49p per minute at all other times.
An international service is available for callers outside the UK, annual subscription £250 stg.
Call 0171 873 4378 for more information on FT Cityline.
For readers phoning from outside UK, please dial +44 in place of the first 0.
The share prices printed on these pages are also available on the internet at http://www.FT.com.

FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 39p/minute cheap rate and 49p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 171) 873 4378.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

Pembroke Hall, Pembroke, Bermuda
UK Pvt Advisors 0800 414181 — Jersey 01534 71696
Private Clients 0800 414181 — 00 352 250404230
From O'seas (44) 1732 777377 — Hong Kong (852) 848 1800

	Selling Price	Yield Gr's	Cityline
A$ Accum	A$18.825	6.00	40907
ASch Accum	Sch247.93	2.10	47644
C$ Accum	C$18.591	3.50	40941
DM Accum	DM38.173	2.10	41278
DFl Accum	Dfl31.580	1.80	40959
ECU Accum	Ecu13.414	3.30	41230
FFr Accum	FFr66.711	2.60	41282
HK$ Accum	HK$120.31	4.20	41316
Lira Accum	L23275	8.10	41338
NZ$ Accum	NZ$39.255	9.00	41544
NKr Accum	NKr711.79	3.40	48046
S$ Accum	S$25.925	2.80	48058
SPta Accum	Pta2704.0	6.40	50124
£ Accum	£13.014	4.70	41548
SKr Accum	SKr120.21	4.40	49064
SFr Accum	SFr29.347	1.10	41550
US$ Accum	$23.325	4.40	41575
Yen Accum	Y2005.9	0.10	41562

Prices for dealing Aug 9

Jupiter Tyndall (Bermuda) Ltd

PO Box HM1256, Hamilton, Bermuda 001 809 292 2780
Jupiter Tyndall World Umbrella Fund Ltd

	Selling Price	Buying Price	Yield Gr's	Cityline
Eurobond	$15.72	16.51	3.47	45871
Money (c)	$14.13	14.85	2.46	45872

Lloyds Intl Money Market Fund Ltd

Sarnia Hse, Le Truchot, St Peter Port 01481 724983
Lloyds Bank Fund Managers (Guernsey) Ltd

	Selling Price	Yield Gr's	Cityline
Australian Dollar ◆	A$85.898	6.206	45405
Canadian Dollars ◆	C$29.482	3.840	44483
Deutschmarks ◆	DM59.252	2.403	45406
Dutch Guilders ◆	Dfl35.023	1.888	44013
ECU's ◆	Ecu38.751	3.470	45407
French Francs ◆	FFr187.289	2.708	45408
Italian Lire ◆	L26191.044	8.348	-
Japanese Yen ◆	Y3400.187	0.087	45409
New Zealand Dollar ◆	NZ$94.730	9.145	45410
Norwegian Kroner ◆	NKr102.040	3.487	-
Portuguese Escudos ◆	Es3762.802	6.642	44936
Spanish Pesetas ◆	Pta597.068	6.748	44945
Sterling Class ◆	£30.668	4.930	45411
Swedish Kronor ◆	SKr103.883	4.576	-
Swiss Francs ◆	SFr80.780	1.402	45412
US Dollar Class ◆	$41.781	4.605	45413
Managed Sterling	£19.281	6.028	46139
Managed US$	$25.452	5.405	46166

Dealing daily

M & G (Guernsey) Ltd

Westbourne, The Grange, St Peter Port 01481 722883

	Init Chge	Selling Price	Buying Price	Yield Gr's	Cityline
Island Global Fd	0	1844.7	1965.4	0.95	45419
Island Gold	0	4018.8	4789.7	-0.1	50128
(Accum. Units)	0	8608.8	9125	-0.1	45422
Island UK Fd	0	1018.8	1080	3.57	45423
(Accum Units)	0	2464.2	2601.5	3.57	45424

Prudential Fund Managers (Guernsey) Ltd

Po Box 61, St Peter Port Guernsey 01481 707000
Prudential Money Funds Ltd

	Init Chge	Selling Price	Buying Price	Yield Gr's	Cityline
Managed Sterling		159.00	159.10	4.01	45837
Managed Dollar	5	$14.44	14.45	3.78	45838
Dollar Deposit		$10.10	10.11	3.83	45840

Rothschild Asset Management (CI) Ltd

PO Box 242, St Peter Port, Guernsey 01481 719742/3

	Init Chge	Selling Price	Buying Price	Yield Gr's	Cityline
FAIB £ Bond	3¼	£21.38	22.06	5.52	47645
FAIB US$ Bond	3¼	$32.42	33.60	6.66	47647
FAIB £ Global	3¼	£17.98	18.59	5.04	44948
FAIB US$ Global	3¼	$30.52	31.55	6.64	44950
Fixed Income Latin Am Dept	5	$13.94	14.67	0	44966
FAIRL £		£44.654		4.75	45664
FAIRL A$		A$40.504		5.93	45665

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

QUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

Murray Johnstone (Dublin) Ltd

Ellsmere House, Hanover St, Dublin 2 3531 407 2000
Murray Global Accumulation Fund Plc

	Init Chge	Selling Price	Yield Gr's	Cityline
Murray Financials Bond	2	102.73	6.72	-

Odey Asset Management Ltd

80 Harcourt Street, Dublin 2 00 3531 780 2400

	Selling Price	Yield Gr's	Cityline
Odey European Gth Inc	DM153.07	-	49084
Odey European Gth Acc	DM153.84	-	45126
Odey European Gth Inc	£56.93	-	51293
Odey European Gth Acc	£57.18	-	51294

Old Mutual International Fd Mngrs Ltd (a)

9/11 Lower Mount Street, Dublin 2, Ireland 00 3531 6621555

	Selling Price	Yield Gr's	Cityline
OMI Galileo Euro Sterlg	$1.357	0.00	53880
OMI Galileo Em Asia Eq	$0.890	0.00	-
OMI Galileo Emer Mkt Bd	$1.1289xd	6.18	53848
OMI Galileo Emer Mkt Eq	$1.090	0.00	53849
OMI Galileo Glbl Mgd	$1.3358xd	0.00	49113
OMI Galileo Glbl Spec Mkt	$1.3758xd	0.00	49111

Baring Mutual (Ireland) Ltd

	Selling Price	Buying Price	Yield Gross	Cityline
Umbrella Fund Inc	$12.80	12.88	8.84	48874
Greater America Fund '92	$97.84		0.00	45879
Pacific Emerging 94 A	$65.70		0.00	52199
Pacific Emerging 94 B	$62.42		0.00	52200
Latin America	$97.76		0.00	54437

Berkshire KITC Growth Fund Plc

	Selling Price	Yield Gross	Cityline
NAV	$8.10	-	-

Berkshire Korea Fund Plc

	Selling Price	Yield Gross	Cityline
NAV	$8.40	-	48020

Bordier Invest (Ireland) Ltd

	Selling Price	Yield Gross	Cityline
Invest Korea Fd NAV Aug 8	$83.40	-	48006

CFP Interest Rate Arbitrage Fund Plc

	Selling Price	Yield Gross	Cityline
NAV	$10.40	0.00	50027

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 39p/minute cheap rate and 49p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 171) 873 4378.

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 39p/minute cheap rate and 49p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 171) 873 4378.

OTHER OFFSHORE FUNDS

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

PACIFIC

AFRICA

NORTH AMERICA

INDICES

US INDICES

INDEX FUTURES

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

FT FREE ANNUAL REPORTS SERVICE
You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code FT8185. Ring 0181 770 0770 (open 24 hours including weekends) or fax 0181 770 3822. If calling from outside UK, dial +44 181 770 0770 or fax +44 181 770 3822. Reports will be sent on the next working day, subject to availability.

TOKYO - MOST ACTIVE STOCKS: Friday, August 9, 1996

	Stocks Traded	Closing Prices	Change on day
Mitsui Co	16.1m	946	-16
Fuji Photo Film	11.0m	3190	-30
TYK Corp	10.3m	1030	-150
Toray Inds	9.8m	700	
Daido Stl Sheet	6.2m	1030	-110
Kanematsu Corp	4.4m	572	-24
Nagasakiya	4.2m	629	-64
Hitachi	4.0m	1020	+20
Toyota Motor	3.1m	2620	-20
Koa Oil Co	2.9m	970	-160

4 pm close August 9

NEW YORK STOCK EXCHANGE PRICES

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Prices	Ch'ge Prev. Close
23¾	17¼	AAR	0.48	2.4	19	240	19¾	19½	19⅝	
46⅛	35⅛	AMP x	1.00	2.5	19	2620	40	39½	39¾	
97½	68	AMR			17	14947	86⅝	84⅝	85½	-¾
50½	37⅜	ASA	2.00	5.0	26	922	40⅞	40¼	40⅜	-½
46½	38⅛	AbbtL	0.96	2.1	20	6280	u46½	45¾	46½	+¾
17¾	12⅛	AbnAbl Pr	0.40	3.1	6	578	13¼	12⅞	13	
20¾	19½	ABM Ind	0.35	1.9	18	215	18	17⅞	18	+⅛
18⅝	13⅞	Acclaim			38	74	17⅞	17¼	17⅞	+½
50⅜	37¾	ACE Ltd	0.56	1.2	11	2873	47	45¾	46⅞	+⅝
10⅛	9⅛	ACM Gvt In x	0.90	9.1	8	384	u10⅛	9⅞	9⅞	-⅛
7⅞	6⅞	ACM GvOpp x	0.57	8.0		207	7⅛	7	7⅛	
7¼	6	ACM Gvt Sp x	0.66	10.2		777	6⅝	6½	6½	-⅛
9⅛	8¼	ACM Gvt Se x	0.90	10.1		655	9	8¾	8⅞	
9½	8⅞	ACM Man x	0.90	9.9		380	9⅛	9	9⅛	-⅛
13⅞	6⅛	Acme Elect			40	145	7⅜	7	7¼	+⅛
17½	13⅞	Acme Mills			8	67	14⅛	14	14⅛	+⅛
33¾	27¾	Acordia	0.80	2.6	18	12	30⅞	30⅞	30⅞	-⅛
21⅜	12	Acuson			70	3912	14	14	14	
19½	17⅞	Adams Expr	0.48	2.6	0	92	18¾	18⅝	18⅝	
21¼	10¼	AdvMic			9	10779	14⅛	13⅜	13⅞	
11⅛	8½	Advest Grp	0.16	1.6	7	58	9¾	9¾	9¾	-⅛
26⅛	9⅛	Advo Inc	0.10	0.9	537	834	10⅞	10⅝	10¾	+¼
50⅜	41⅛	Aegon	1.19	2.4	15	14	48⅝	48¼	48⅝	-⅛
8¾	3½	Aeroflex			3	226	5¾	5½	5¾	+¼
66¼	57⅝	Aetna	2.76	4.3	7	7235	65⅝	64½	64½	-⅞

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

Continued on next page

هكذا من الاصل

4 pm close August 9

NYSE PRICES

Continued from previous page

NASDAQ NATIONAL MARKET

4 pm close August 9

AMEX PRICES

4 pm close August 9

FT GUIDE TO THE WEEK

MONDAY 12

Republican party meets

The Republican party convention in San Diego, California, gathers to nominate Bob Dole as its presidential candidate and Jack Kemp as his running mate. No surprises expected here, but there could be fireworks on day two over the issue of abortion, with social and religious conservatives pitted against pro-choice Republicans. Speakers on the opening night, which is devoted to party unity, include Colin Powell, the retired general, Congresswoman Susan Molinari of New York and George Bush and Gerald Ford, the former presidents. Day two sees the adoption of the party platform, and Wednesday has the ritualistic vote for the presidential candidate. The climax comes on Thursday with voting for the vice-presidential candidate and acceptance speeches by both members of the ticket. Then red, white and blue balloons descend from the rafters and everyone goes off to fight President Bill Clinton, whose coronation comes two weeks later in Chicago.

Rao fights summons

The shaky hold of P. V. Narasimha Rao on the leadership of the Congress party faces a challenge as India's supreme court begins hearing his appeal against a summons issued by another Delhi court. If his appeal fails, the former *prime minister will have to stand trial* in a fraud case, scheduled to start on August 17. An adverse verdict could force his replacement as the head of the fractious party, which was voted out in May elections.

Talks on Brazil car duties

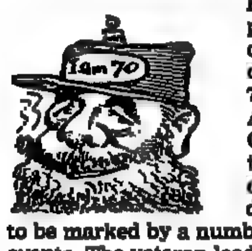
Consultations begin in Geneva between Brazil, Japan, the EU, the US and South Korea on Brasilia's restrictions on motor vehicle imports. Brazil introduced 70 per cent duties on vehicle imports last year, but allows manufacturers operating in the country to import vehicles at duties of 35 per cent. The measure was designed to encourage investment but Brazil's trading partners saw it as discriminating against other manufacturers.

Public holidays

Thailand, Chad, Zimbabwe.

TUESDAY 13

Castro's 70th birthday



Fidel Castro, president of Cuba, celebrates his 70th birthday. Although Mr Castro is averse to a national celebration, the date is expected to be marked by a number of smaller events. The veteran leader appears to maintain a punishing schedule, although sometimes looks tired when appearing in public. The question of succession is not publicly discussed, *but Mr Castro is increasingly* delegating duties to younger officials.

Ukraine border talks

Ukraine and Russia restart negotiations on fixing their border after a long delay caused by the Russian elections. Kiev is anxious to resolve the border issue, as well as differences over the division of the 300-vessel Black Sea fleet. Russia has been uneasy about acknowledging Ukraine's borders to include Crimea, where the port of Sevastopol serves as the fleet's main base.

MPs report on handguns

The UK House of Commons' all-party home affairs select committee publishes its report on handguns in the wake of the Dunblane massacre in February. Leaked reports have shown that the Conservative majority on the committee has rejected the idea of a ban. Ministers have indicated they are likely to overlook the findings as they await the results of the official investigation by Lord Cullen.

Public holidays

Tunisia, Central African Republic.

Loyal show: activists in Indonesia yesterday called for tough action to quell political unrest. President Suharto addresses the nation on Friday

WEDNESDAY 14

Pakistan opposition rally

Pakistan celebrates its 49th independence anniversary amid demands from the country's opposition parties that Benazir Bhutto, the prime minister, step down. The opposition has called an anti-government meeting at the port of Karachi. A march on Islamabad, the capital, is also planned but no dates have been set. The government has faced criticism since it introduced tough taxes in June.

British health scrutinised

The National Audit Office, the UK public spending watchdog, issues a report monitoring progress in the government's Health of the Nation initiative. The areas include coronary heart disease, cancer, mental illness, Aids and sexual health, and accidents. The report is expected to show that several targets have been missed.

Nuclear weapon findings

The Canberra Commission on the elimination of nuclear weapons is due to deliver its final report, detailing what steps could be taken to enhance disarmament. The commission was set up last year by Australia's former Labor government, but its 17 members are international figures. They include Michel Rocard, the former French prime minister; Robert McNamara, the former US secretary of defence; and Professor Roald Sagdeev, the Russian physicist who was President Mikhail Gorbachev's science adviser.

Bosnian poll summit

Warren Christopher, the US secretary of state, meets the presidents of Serbia, Croatia and Bosnia-Hercegovina in Geneva for a one-day summit in an effort to improve conditions for Bosnian elections on September 14.

UK rates talks published

The UK Treasury will publish the minutes of the July 3 meeting on interest rates between Kenneth Clarke, the chancellor, and Eddie George, the governor of the Bank of England. This meeting followed Mr Clarke's decision a month earlier to cut rates against the wishes of the Bank. Analysts will scrutinise the text for indications that the Bank's worries were allayed in the following weeks, although the Bank's quarterly inflation report last week suggested its views were unchanged.

Athletics

IAAF grand prix meeting, Zurich.

Public holidays

Pakistan, Morocco.

THURSDAY 15

Women chess challenge

The Foxtrot International, a chess match held at the London Hilton, pits the best women chess players against a men's team of former world champions and challengers. Although the legendary Boris Spassky leads the men, the women are favourites to repeat their victories of 1994 and 1995. Play starts at 2pm daily (to Aug 26).

Coetzee on trial

Dirk Coetzee, the former South African police captain, goes on trial for the murder in 1981 of Griffiths Mxenge, a lawyer and ally of the then-banned African National Congress. Mr Coetzee, who defected to the ANC in 1989, has admitted his part in the killing and has requested an amnesty from the Truth and Reconciliation Commission, which has the power to pardon apartheid-era crimes in return for a public confession. Mr Coetzee's lawyer has said the decision to prosecute could deter others from confessing.

Greeks make pilgrimage

Tens of thousands of Greeks arrive on the Aegean island of Tinos to celebrate the Feast of the Assumption. Devout pilgrims make their way uphill on hands and knees from the harbour to the church of Panayia Evangelistria to light a candle at the icon of the Virgin Mary, which has a reputation for miraculous cures. The day is a public holiday in most of southern Europe.

Japan honours war dead

On the 51st anniversary of the Japanese surrender that ended the second world war, several Japanese cabinet ministers make their controversial annual pilgrimage to the country's main shrine to the war dead. The Yasukuni shrine honours the souls of, among others, executed war criminals. Ryutaro Hashimoto, the prime minister, visited the shrine two weeks ago, becoming the first prime minister in more than a decade to do so. The move earned him the swift condemnation of other Asian governments, most notably China.

Golf

Women's British Open, Woburn (to Aug 18).

Public holidays

Austria, Belgium, Croatia, France, Lebanon, Luxembourg, Poland, Portugal, Slovenia, Spain, Greece, Italy, Malta, South Korea, Ivory Coast, Chile, Costa Rica, Guatemala, Panama, India.

FRIDAY 16

Suharto addresses nation

President Suharto addresses the nation to mark Indonesia's 51st independence day, celebrated tomorrow. In the wake of serious political unrest surrounding the government's ousting of Megawati Sukarnoputri, the leader of the opposition Indonesian Democratic party, the country will be looking for an indication of Mr Suharto's view of the affair.

Christian bikers meet

The European Motorcyclists for Christ roll into Finland for a weekend rally of prayer, camping and music. The event stands in sharp contrast to a violent feud being waged between rival Nordic biker gangs, as Hell's Angels take on members of the Bandidos gang. A two-year spate of gun and bomb attacks has left six dead and at least 20 injured. By coincidence, European Hell's Angels are holding their own rally in France over the same weekend. "It is a blessing that they will be out of the country," said one of the Christian rally's organisers.

Dominican Republic shift

The Dominican Republic undergoes a significant political shift as Leonel Fernandez succeeds Joaquin Balaguer, the president who has dominated the Caribbean country for most of the past 30 years. Mr Fernandez, leader of the centrist Liberation party, promises extensive economic and administrative reform, but will be hard put to make changes as he has little support in the legislature.

Athletics

IAAF grand prix meeting, Cologne.

Public holidays

France, Belgium, Dominican Republic, Gabon Republic.

SATURDAY 17

English football starts

Enlivened by Alan Shearer's £15m world record transfer from Blackburn Rovers to Newcastle United, and by the acquisition of numerous high-priced foreign stars, England's soccer season kicks off with action in the FA Carling Premiership, the élite clubs, and the Nationwide League. Money is pouring into English soccer, making its Premiership division the most alluring in Europe.

Public holidays

Indonesia, Argentina, Gabon Republic.

SUNDAY 18

Reform party nomination

Part two of Ross Perot's Reform party convention in Valley Forge, Pennsylvania, follows a week after part one in Long Beach, California. Votes for the nominees are supposed to have been counted in the intervening week. The Texan billionaire is the odds-on favourite to swamp *Dick Lamm*, the former Democratic governor of Colorado. Then he will have to decide if he is really going to run again.

France discusses troop cut

Charles Millon, the French defence minister, meets Volker Rühe, his German counterpart, near the town of Belley in Rhône-Alpes to discuss a range of military subjects including the withdrawal of French troops from German soil. France is expected to reduce the number of its troops in Germany from 20,000 to 3,000 over the next three years.

Yachting

Teacher's Round Britain Challenge (to September 14/15).

Compiled by Nick Mayhew-Smith. Fax: (+44) (0)171 873 3194.

ECONOMIC DIARY

Other economic news

Monday: UK factory gate inflation is expected to have continued falling last month, with raw material prices remaining below the levels of a year ago. Factory gate inflation should have edged lower in Spain, but French consumer price inflation *may have risen in July.*

Tuesday: US retail sales are thought to have dropped a little last month, but not by enough to prevent the *annual rate of increase ris*ing. US consumer price inflation is not forecast to have changed much last month.

Wednesday: UK unemployment is expected to have continued falling last month, at a rate little changed from June. The decline in Swedish industrial production may have slowed in May.

Thursday: UK retail price inflation is expected to have edged up a little last month, while US industrial production is thought to have declined in July.

Friday: Unemployment in Mexico is expected to have risen in July, but to have declined a little in Sweden. Government borrowing *is* expected to have been much lower in the UK last month than in June.

Statistics to be released this week

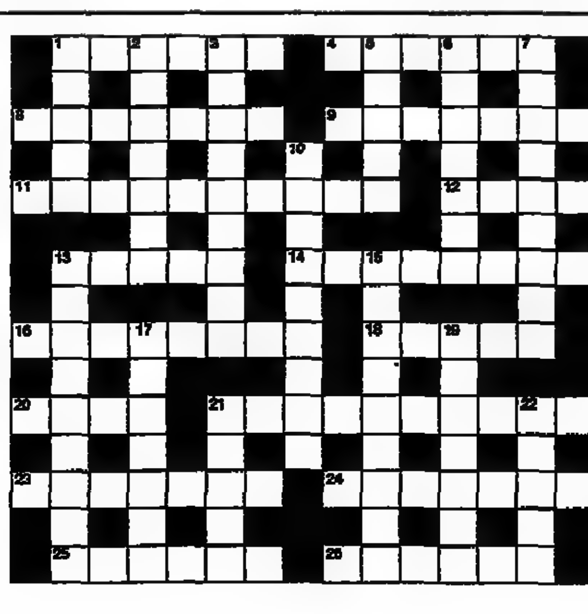
Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	France	Jul consumer price index, prelim*	-0.1%	-0.1%
Aug 12	France	Jul consumer price index, prelim**	2.4%	2.3%
	Italy	Jun industrial production nott**	-7.1%	-2.6%
	Neth	Jun retail sales	4.0%	7.1%
	UK	Jul producer price index input*	0.1%	-1.3%
	UK	Jul producer price index input**	-2.2%	-2.1%
	UK	Jul producer price index output*	0.0%	-0.2%
	UK	Jul producer price index output**	2.3%	2.6%
	UK	Jul PPI ex food, drink, tobacco**	1.7%	2.0%
	UK	Jul Brit Ret Consort retail survey		7.0%
	Canada	Jul raw mat price index (advance)*	-1.4%	-2.6%
Tues	US	Jul retail sales	-0.29%	-0.2%
Aug 13	US	Jul retail sales ex auto	0.1%	0.1%
	US	Jul consumer price index	0.2%	0.1%
	US	Jul con price inded, ex food & energy	0.2%	0.2%
	US	Jul real earnings		2.2%
	Canada	Jun motor vehicle sales*	1.0%	8.2%
Wed	Japan	Jun industrial production, revised†		-3.9%P
Aug 14	Japan	Jun shipments, revised†		-3.6%P
	UK	Jul unemployment	-14.4k	-14.3k
	UK	Jun average earnings	3.5%	3.5%
	UK	Jun unit wages, 3 monthly**	3.1%	3.2%
	Sweden	May industrial production not†**	-0.4%	-1.6%
Thurs	UK	Jul retail price index*	-0.5%	0.1%
Aug 15	UK	Jul retail price index**	2.2%	2.1%

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
	UK	Jul RPI ex mortgage int payments**	2.9%	2.8%
	UK	Jul retail price index Y**	2.5%	2.4%
	US	Jul industrial production	-0.1%	0.5%
	US	Jul capacity untilisation	83.0%	83.2%
	Canada	Jun wage settlements inc**	1.0%	0.8%
Fri	Japan	Jul money supply (M2 & cash dep)**	3.6%	3.9%
Aug 16	Japan	Jul broad liquidity**		4.2%
	UK	Jul pub sector borrowing requirement	£0.1bn	£3.6bn
	Sweden	Jul unemployment rate	8.3%	8.4%
	US	Jul housing starts	1.45m	1.48m
	US	Jul building permits		1.42m
	Canada	Jul con price index, all items not†*	0.1%	-0.1%
	Canada	Jul con price index, all items not†**	1.3%	1.4%
	Canada	Jul CPI ex food & energy not†**	1.5%	1.3%
During the week...				
	Japan	Jul Tokyo department store sales**		1.4%
	Japan	Jul trade bal (custom cleared) not†	Y630bn	Y808bn
	Germany	Jun retail sales, real**	-1.0%	-3.0%
	Germany	Jun retail sales†*	0.0%	-1.0%
	Germany	May trade balance	DM8.5bn	DM8.2bn
	Germany	May current account	DM-1.1bn	DM-0.9bn
	Germany	Jul wholesale price index*	0.1%	0.2%
	Germany	Jul Icon consumer climate		87.0
	Neth	Jul unemployment rate, 3 monthly	6.5%	6.3%

*month on month, **year on year, † seasonally adjusted. Statistics, courtesy MMS International.

MONDAY PRIZE CROSSWORD

No.9,144 Set by GRIFFIN



ACROSS

1 Australian port being taken round pub's stolen! (6)
4 Monkeys' temporary accommodation in vessel (6)
8 Street choir performing without egg producer (7)
9 Getting round a ban beg for a cushion (7)
11 Ruthless on leaving Tony managed back in California (10)
12 One'll catch fish after 30 minutes all right! (4)
13 Cross swords with a crooked dealer? (5)
14 Hired oboes turned out to be antiquated (8)
16 Flannel caught round mouth (8)
18 Poor journalist returned foreign money without (5)
20 Fellow and sweetheart finished (4)
21 Secret prisoner I'd taken into stockade (10)
23 Ruler against one shy queen interrupting (7)
24 Butcher fainted, showing contempt (7)
25 Front garden complete with water trough (6)
26 Distinguishing mark for tags I'm replacing (6)

DOWN

1 Sit without one in dried grass, causing rash (5)
2 Black artist stands to win contract (7)
3 Story-teller with race to run, perhaps (9)
5 Cold river fish requires suitable basket (5)
6 In smelly apartment holidaymakers needed an inhalant! (7)
7 Say the row's about what ship should be (9)
10 Go with a top coach firm (9)
13 Uprising of students and unpaid supporters (9)
15 Feeling nurse needs time went 50% less (9)
17 Offer to pose (7)
19 Time, still, to get in by midnight (7)
21 Shut up about forfeit! (5)
22 A dance people will queue up for? (5)

A prize of a Pelikan New Classic 380 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by *Thursday August 22, marked Monday* Crossword 9,144 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday August 26. Please allow 28 days for delivery of prizes.

Name..

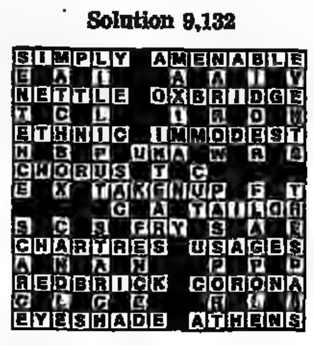
Address..

....

Winners 9,132

Mrs C.M. Hibberd, Woodhall *Spa, Lincolnshire*
B. Bennett, South Sutton, Surrey
Mrs M. Blythe, Wistaston, Cheshire
T. Goddard, Newton Longville, Bucks
Bess Morton, Montreal, Canada
Audrey Slater, Selly Oak, Birmingham

Solution 9,132



JOTTER PAD

هكذا من الاصل

Germany's banks are being forced to shed their staid working practices, writes **Andrew Fisher**

A sharp break with tradition

It is about two hours by car from Deutsche Bank's imposing headquarters in Frankfurt to its direct banking subsidiary in a converted grain mill in Bonn. But the two are worlds apart.

The bank's twin-towered skyscraper is the traditional face of banking, with the atmosphere one of restraint, discretion and respectability. The former mill building contains its new direct bank, Bank 24, where staff are friendly, energetic and informal – characteristics not always associated with German banks.

Many Bank 24 staff work part-time and come from outside banking. They have shorter holidays than Deutsche Bank staff and a different pay scale. "Our people are young, with an average age of 27 and a strong service credo," says Thomas Holtrop, Bank 24's head of marketing.

Direct banking – with transactions carried out by telephone or computer – has still not yet really taken off in Germany. But banks have recognised that changing customer needs mean they have to provide this service for those wanting low costs and little or no advice. The extreme service- and cost-orientation of direct banks will clearly influence the rest of the retail banking network. "This is a prototype for what will be," says Burkhardt Pauluhn, divisional director for retail banking at Deutsche Bank.

Regardless of direct banks' eventual prospects, their introduction shows the extent of the transformation now taking place in retail banking. With banks under pressure from shareholders to produce better returns and speculation about possible mergers in the air, the pace of change is accelerating.

At branches across Germany, managers and staff are having new working methods thrust upon them. As their employers strive to meet new customer demands, ward off competition and hold down costs, the staid banking practices of past years are being shed rapidly.

At Dresdner Bank, for example, local managers no longer sit in their offices, away from the bustle outside. They are out in the front so they can see what is going on and keep staff on their mettle. Olaf Scheer, in charge of private customer business, says this is "an extreme cultural change". "Managers cannot just show off their status by withdrawing into their rooms whenever they please, but are right in the middle of customer activity."

Some private customer advisers hardly see an office at all. Deutsche Bank's Cologne branch, responsible for 103 local branches in the outlying area, has about 30 independent advisers who visit clients and are paid on a commission-only basis. Banks are also introducing performance-related bonuses.

The aim of these and other changes is to put customers to the fore. For savers, borrowers and investors, this should increasingly mean faster, friendlier and often cheaper service – a big change from traditional retail banking practices. The dense branch network is being overhauled and management structures are being streamlined.

Jobs are also disappearing, although not at the same rate as in the US or UK in recent years. Dresdner Bank has cut branch staff by 11 per cent in the past two-and-a-half years. Deutsche Bank reduced jobs in Germany by 5.5 per cent last year and by 16 per cent since the start of 1993. The main banking union (HBV) fears private-sector banking could shed 20,000 jobs this and next year.

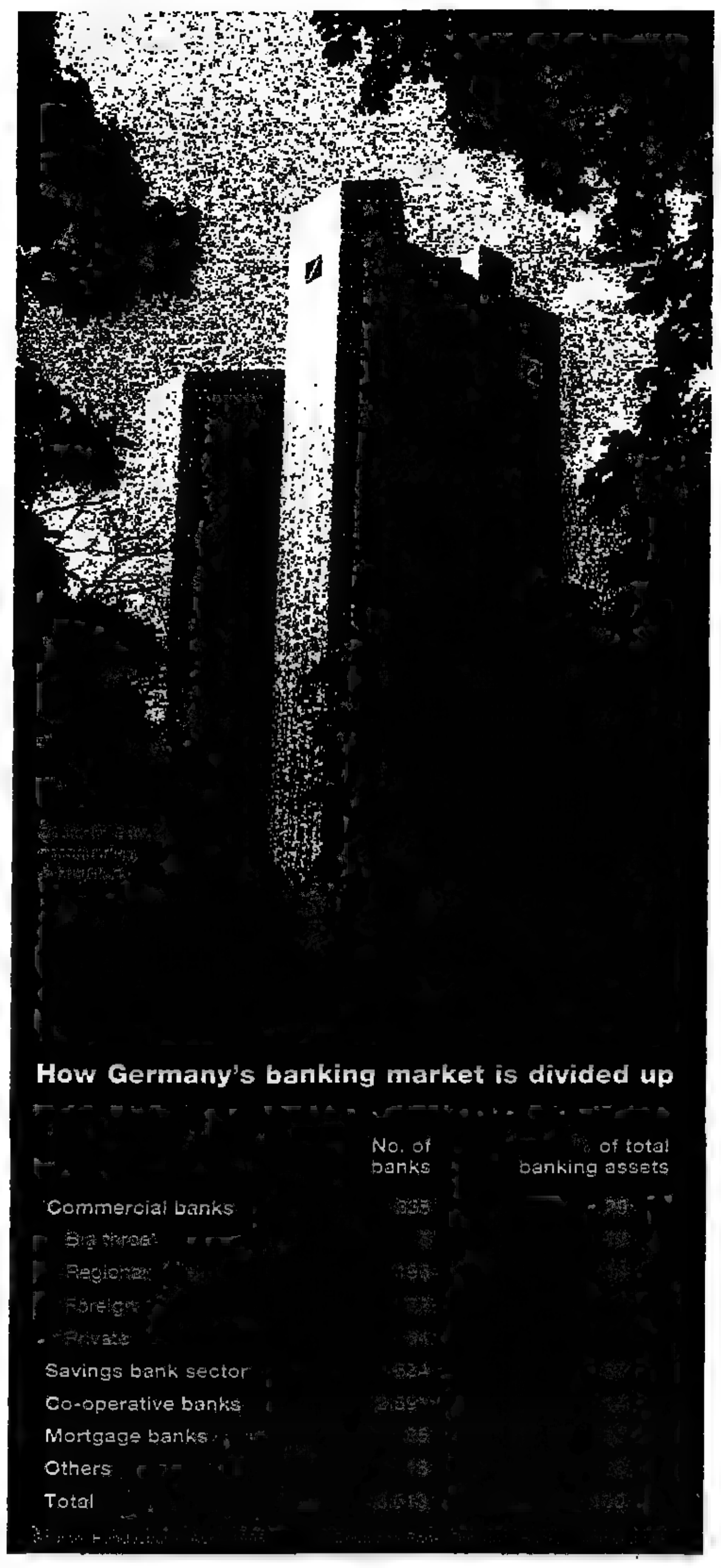
So far, the cuts have been achieved by natural fluctuation and voluntary means. But some bankers foresee redundancies. "In time, we [German banks] will run into a huge structural problem," says Stephan Schüller, a director of Bayerische Vereinsbank. "If we do not deal with it now, the solution will become harder. Redundancies cannot be avoided."

Thus staff are being put increasingly on their toes. In the past, service in German banks could often be indifferent, arrogant and slow. Service does not come easily to many Germans. Surprisingly, the big German banks have little more than a tenth of the retail market, the largest slices being with the myriad savings and co-operative banks. But Germany is one of the world's most over-banked countries, with around 1,500 inhabitants for each branch – nearly twice as much as in the US, Britain or Japan. So each customer has to be fought for.

In the past, the unwieldy retail banking structure did not matter too much. Conservative German savers kept money on deposit at low rates of interest, providing banks with a cheap and reliable source of capital. This money could then be lent to companies at profitable interest rates.

But savers are becoming more sophisticated, although slowly, and companies are turning increasingly to the stock market or taking advantage of greater competition among banks to keep down borrowing costs. Foreign banks, notably Citibank of the US, have introduced faster and more customer-focused service to the retail banking market. So the big banks have to make their extensive branch networks pay.

"German banks are waking up," says Heino Fassbender, a director at McKinsey, the management consultancy. As more people understand the need for higher after-tax returns on their money – especially with state pension and social security benefits likely to be squeezed – they will demand better products, advice and service from banks. "This is very much a story about a supplier and his customer."



The banks are reacting to these challenges by:

● Restructuring branch networks to put more staff at customers' disposal and shift administrative work to special centres. Employees can choose to serve and advise customers or handle back-office work, but usually not both. Pauluhn says the costs of some processes, such as consumer loans, can be cut by up to 50 per cent. The overall aim is to keep costs flat.

Deutsche Bank will put branches in supermarkets to take advantage of the new law on longer shopping hours, while both Deutsche and Dresdner Bank plan to keep many branches open in the evenings. Smaller, two-person branches are also planned. Schüller foresees "a very far-reaching and radical restructuring" of Vereinsbank's network as branches are sorted into small, service units and large flagship operations.

To improve service in its big Stuttgart branch, Dresdner has installed four separate retail customer units in its banking hall, while upstairs the better-heeled clients are given advice in elegant rooms decorated with modern art and potted plants. At Dresdner's 1,200 branches, 71 per cent of staff deal directly with customers compared with 49 per cent previously. Vereinsbank is cutting its payments centres from seven to two and concentrating back-office activities away from its branches.

● Streamlining management hierarchies so private customer, corporate and other business is handled more effectively at local level. Lines of communication with head office are being shortened, mainly by cutting out regional centres, with more transparency so banks can see where costs and earnings are being produced. Branches are also being given more local decision-making power.

Deutsche Bank has taken out the middle layer of its branch network so that its 1,500 branches report to 18 regional offices; previously they reported to 100 intermediate offices which are now normal branches. At Dresdner, retail activities are split into private banking and high-value customers, the dividing line being roughly DM200,000 (£87,000) in total account size. Of its 1,200 branches, 700 cater to both categories, the rest providing standard products for those who have not yet crossed this asset line.

● Setting up new operations such as direct banks or discount broking operations. Apart from Deutsche Bank, direct banks have been set up by Citibank, Commerzbank (with Comdirect) and Bayerische Vereinsbank (Advance Bank). Bayerische Hypotheken- und Wechsel-Bank has a discount broking subsidiary.

Dresdner Bank has not formed a direct bank but is expected to do so. "The option is there," says Heinz-Jörg Platzek, the bank's director with responsibility for retail banking. "A direct bank could make sense if it is properly positioned. The potential is growing and the question is do we put the cow out to graze right away or wait until the grass has grown?"

Studies have shown that around 15 per cent of customers could be attracted to the convenience and low-cost services of direct banking. These are mainly young, technology-minded people. As yet, progress is slow and profits are some way off. "Ultimately, it's the future," says Fassbender.

Even so, banks want to be prepared for when electronic banking does penetrate the market. At the same time they are aware that many people still want the services of a branch, at least for advice on investments, pensions, housing finance and other non-routine matters.

So the drive is on to extract more fee-based business from customers visiting the branches, while pushing down costs. This is especially vital as customers make fewer branch visits in these days of automatic machines for cash withdrawal and other transactions.

Citibank says its customers now make about half their transfers by machine or telephone and the trend is rising. Its terminals enable clients to order cheques, transfer money and make deposits, as well as withdraw cash. This frees staff for advising customers, with a service manager to arrange appointments.

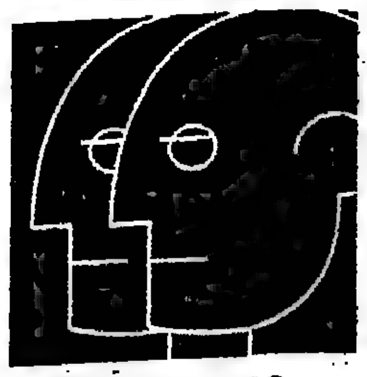
"Every customer contact is a sales contact," says Platzek. "Our branch network is an asset." German banks have a cost/income ratio of around 70 per cent which he says is too high. "But it is also our biggest lever to improving profits – each percentage point means around DM100m less in costs."

Dresdner's aim is to bring the cost/income ratio down to 60 per cent, with an interim goal of 65 per cent in two or three years. This means providing normal private customers with 10 or 15 standard products, such as savings and current accounts, mutual funds and consumer credits; while offering wealthier customers expert advice on bonds and shares, property and other more sophisticated investment and credit possibilities.

Peter Maassen, head of retail banking for Stuttgart and the outlying area with 85 branches, says staff are encouraged to try to move customers above the DM200,000 account size line. This is done through more active investment advice and persuading clients to concentrate business with Dresdner. The aim is to have around 10 per cent of private customers in the high-asset category against 8 per cent now.

Branches have a target of up to 20 such customer up-gradings a year. They are also compared on how well they sell securities, insurance and other products. At Vereinsbank, a top-down approach is followed, with innovative financial products – in such areas as property financing or investment, in which it is strong – are offered first to wealthier clients and then adapted for the less well-off.

But however the strategies differ, customers are being wooed as never before. "Customers are changing," says Schüller. "Loyalty to a single bank is declining and they are more willing to try new things." The next few years will show just how well the banks can meet their needs.



PARTNERS

Toni & Guy

The Mascolo brothers, Toni, 54, Guy, 53, opened their first hairdressing salon, in south London, in 1963. When the company began to expand, they were joined by younger brothers Bruno, 48, and Anthony, 39. Toni & Guy now have 90 salons and nine hairdressing academies throughout the world. Their annual turnover is £23m.

Toni: "Anthony became a partner straight from school, at the age of 15. The only problem was his name. I'd changed mine from Guiseppe to Toni in the early 1960s and wanted Anthony to change his. My Dad, being a typical old-fashioned Italian, wouldn't hear of it, so we agreed to always use Anthony's full name.

From the very beginning I could see he was talented. He came on quick and strong and developed his own instinctive style. He was very aggressive, in the sense that he wasn't scared to take waist-length hair and clip it right to the ear with no fear whatsoever. It's that kind of confidence which has made him British Hairdresser of the Year three times.

Bruno and Guy now live in America so I look after all the company finances. Anthony takes care of the image side of the salons, although he'll occasionally come to auditors' meetings with me. I'll arrive in a suit, whereas Anthony will turn up on his Ducatti, with greased-back hair and wearing a leather jacket.

We're both stubborn Taureans which is a pain in the neck. I have the edge as I'm older, but a lot of times I give in to him. When we opened the new academy in Covent Garden last year, Anthony wanted to spend an extra £50,000 which I didn't think was necessary. I let him have his way because it made him feel good. If you lose something to your brother in business it's not important."

Anthony: "Toni's role is entirely different from mine. He's managing director, I'm international art director. I deal with advertising, image and education, while Toni looks after the funds. I keep in tune with what's going on financially, although I trust Toni implicitly.

There's a 15-year age gap between us so we think very differently. It's more like father and son than two brothers. I've learned an enormous amount from him and I'm still learning. He's more conservative and more disciplined than I am. I'm a bit wilder and madder.

He's the only brother who's lost his hair on top. He used to have a long bit to hide the bald patch until we got hold of him and cropped it off. It's no good trying to hide the fact. You've got to say, "this is how I am", that way you restore your confidence.

We're both hairdressers at heart even though I go on stage and he prefers to work in the salons. I can go to a show and earn between £5,000 to £10,000 in a few days, yet Toni can make one decision in an hour which could result in £1m. It's irrelevant who earns the most any more because we split the profits equally. We concentrate on our different roles, but the most important thing is working towards the same goal."

Fiona Lafferty

Let that holiday feeling linger

Lucy Kellaway

For a brief moment at the beginning of last week I was refreshed, relaxed, enthusiastic, energetic. The feeling lasted a day and a half.

That is the trouble with holidays – the afterglow barely ever survives the return to work. Sometimes the commute alone is enough to bring you down with a bump, leaving you feeling worse than before. The distant memory of a good holiday makes the daily grind seem still less attractive by comparison.

Against the background of a tube strike and a postal strike, last week's return was not good. Nearly everyone else is still away, those who are working look white and tired. "Did you have a good time," they ask, but are not interested in the answer. In your absence your things have been moved and you can't find your coffee cup. The in-tray is full of outdated invitations and unwelcome mail, and all those jobs not finished off before holidays still beckon.

It need not be like this. Surely we should feel re-enthused, returning to work full of ideas, glad to be back and in thoroughly good humour. Companies should be able to harness the returnee's enthusiasm, and make use of the unusual burst of creativity. If managers are trying to change attitudes and instill new ideas this might be a good time to start.

Failing a mass initiative, there are little things that could be done to make the first days better at least. Some of them we could do ourselves: bust a gut to get those really awful jobs done before we go away and set up a nice lunch for the first day back with an entertaining client or colleague to catch up on the gossip. We could also get somebody to do a bit of stage setting for our return – rearranging the in-tray so that all the nicest correspondence is on top, and the nasty stuff lower down. A bunch of flowers would not go amiss.

The returnee problem is a peculiarly British one. On the Continent, where the entire workforce takes August off, the mass return to work has all the excitement of a new year at school, with everyone tanned and ready to start again. In America they have found an alternative way around the problem: workers are discouraged from taking anything resembling a holiday in the first place.

I may have come down from my holiday high, but the creativity has not all dripped away. My enduring memory of the holiday was lying in a hammock reading. It was very pleasant indeed.

I have always thought it would be a good idea to be able to get horizontal in the office, but reluctantly admitted that beds would take up too much expensive space. Hammocks are another matter altogether. All that would be required is a couple of hooks on the ceiling above the desk; the hammock could be neatly stowed in the bottom drawer when not in use. Just think: 20 minutes in the hammock after lunch to think, rest or to read. Heaven.

If you travelled by air the above discussion of marvellous holidays does not apply: you may be feeling anything but relaxed and refreshed. According to the scare stories that have filled the otherwise newsless media in the last week, you are likely to have had your PC nicked by pairs of conmen who are working the airports. The chances are you will have been frightened witless on the flight, when the mango a fellow passenger was bringing home set off the fire alarm. And to cap it all off, thanks to the way the cheapskate airlines recycle air in the cabins, you probably have caught TB too.

More worthy research last week on ageism from Roffey Park showing that companies which have fired all their oldies may one day live to regret it. As a result of making redundant everyone with more than a grey hair or two (ie all those who knew something about the business) there is now what the management institute politely refers to as a "knowledge gap". This, like the rest of the ageism propaganda, strikes me as entirely plausible, and morally persuasive.

But the ageism message just does not seem to be getting through. Take last week's appointment of Michael Lynton as the new head of Penguin. "Whizzkid", "wunderkind" said the press, talking about his age as if it were a prized virtue. I have every hope that the man running the Financial Times' sister company will be a wizard at the job, but the fact that he is about the same age as my little brother does not in itself recommend him.

BUSINESS EDUCATION

NEWS FROM CAMPUS

How to assess the assessments

One of the most difficult things for personnel directors to assess after managers have completed development courses is just how appropriate or cost-effective the training has been.

The Institute of Personnel and Development (IPD), in London, is running a three-day residential course to help personnel managers do just that.

The course, Advanced Training Evaluation and Assessment, aims to give delegates the skills to review current evaluation strategies.
IPD: UK, (0)181 263 3240.

MBA students turn to Mickey Mouse

There is more to studying for an MBA than the purely academic. Seven students on the MBA course at IMD, in Switzerland, have just arranged for six children suffering from life-threatening illnesses to visit DisneyWorld in Florida. The students organised donations and sponsorship to pay for the children and their families, from banks, airline companies and other organisations. The children on the week-long holiday came from the UK, the Netherlands, Germany, Canada and Switzerland.
IMD: Switzerland, 216150111.

Old boys' network in place at Henley

All those who studied at Henley Management College now have an alumni association to keep them informed of what is going on at the school. The association will publish a newsletter, alumni membership book and run alumni events.
Henley: UK, (0)1491 571454.

A healthy outlook for management

A one-week master class for health service professionals is being run in September by Manchester Business School. The modular course covers topics such as re-engineering and quality tools.
MBS: UK, (0)161 275 6333.

Students are working with academics to solve company problems, says **Della Bradshaw**

Western eyes look east

When the Berlin wall came down Czech aircraft manufacturer Let saw the market for its specialised military aircraft evaporate almost overnight, threatening the future of the Kunovice-based company.

The action Let took to survive may seem peculiar. It decided to follow bankruptcy procedures, converting its debts into stock and declaring its creditors as shareholders in the company.

The advice to follow an orderly bankruptcy came from economist Jan Svejnar, recently appointed executive director of the William Davidson Institute at the University of Michigan business school, in Ann Arbor. The institute specialises in research into transitional economies, those moving from planned economics to free enterprise.

"You may have to go through bankruptcy in order to be successful," Svejnar advises companies such as Let.

When Let approached Svejnar for advice on its transition to western-style operations it was not just the academics from the institute who contributed ideas. Unusually, students from the MBA programme also participated.

This approach brings benefits all round, Svejnar believes: the Czech management learns western management techniques; the centre develops its expertise and knowledge of companies operating in a changing economy; and the students get management experience in a real company, not a historic case study.

"It's a real company with real problems," says Svejnar. "We match the students with the companies depending on the courses they are studying – marketing, finance or accounting. The students have been very enthusiastic."

American-educated Svejnar is no stranger to transitional economies. Although his family left Czechoslovakia after the Russian invasion in 1970, and he taught at Cornell and Princeton before taking up his job at Michigan, his biggest claim to fame is as one of the chief architects of the Czech Republic's economic reforms.

Svejnar, 43, modestly describes his role in the changes there as if it was purely a matter of chance. In 1989 he visited the Czech Republic with an economic study he had written with proposals for change.

It was the only study written at the time, he explains, and so its proposals – that workers be issued shares in their companies to provide collateral against which to borrow, for example – were adopted. Svejnar is still adviser to Czech president Vaclav Havel.

It is just this expertise that the William Davidson Institute is hoping to exploit. The institute was set up with a $30m (£19.2m) gift from William Davidson, a plate glass magnate and owner of the Detroit Pistons basketball team, and has been operating for three years. Research there is into economies as far apart as Poland and Vietnam. Already under way is an in-depth study of banking in the transitional economies. And the centre is feeding its expertise through into executive education – Michigan is a leading US business schools in executive teaching – as well as the MBA programme.

A project similar to the Let one, involving MBA students, is already under way in Vietnam, where coal company Vinacoal is undergoing massive restructuring and hoping to export its products.

As with Let, Vinacoal will pay for the consultancy work.

One part of this sort of training is for managers from these companies to visit Michigan during the summer to meet managers in similar positions from other countries. "It's really interesting to see all these managers together," reports Svejnar. "A lot of learning goes on just between them."

For Let, the learning is already well under way. Svejnar and his students are now helping the company devise a marketing strategy to enable the company to sell its aircraft in the west.

Jan Svejnar is still an economic adviser to Czech president Vaclav Havel

CONFERENCES & EXHIBITIONS

SEPTEMBER 2-3
Frank Fabozzi/IMN - Second Annual Beneficial Owners' Summit on International Securities Lending
Course features over one dozen Scottish Beneficial Owners. Sampling of topics ● Determining Appropriate Lending Schemes, ● Risk Management; ● Evaluating Counterparties; ● Repo Update; ● Collateral Management, ● UK Market Examination; ● Pre-Summit Premier. Golf tournament: 2 September
Tel. 1-212-768-2800 ext. 1
Fax 1-212-768-2484
Email. imnreg@aol.com
St Andrews, SCOTLAND

SEPTEMBER 2-5
Fire International 96 Exhibition
The latest firefighting, prevention and protection equipment and services brought together from around the world. More than 250 participating companies.
For further details and/or complimentary exhibition admission tickets contact:
Nicky Molloy Tel: +44 (0) 1737 768611
Fax: +44 (0) 1737 761 685
G-MEX Centre, MANCHESTER

SEPTEMBER 10
Profit Related Pay - The Guide to Designing and Implementing Successful Schemes
Identify which type of scheme is best for your company. You can find out what the stumbling blocks are and how they can be avoided. In addition, a workshop on - "The Do's and Don'ts of Profit Related Pay" will be run in association with BDO Stoy Hayward Benefit Consulting on the 11th of September
Contact: Kate Filleul, IBC UK Conferences
Tel 0171 637 4383 Fax 0171 631 3214
LONDON

SEPTEMBER 10-11
Intranets and Network Computers: Shaping the enterprise IT infrastructure
The Intranet - the internal internet - is the hottest issue in IT today. In combination with Groupware and NCs, it offers organisational collaboration sharing and productive use of information and knowledge. JSB, Apple, Oracle, Netscape, Sun, Microsoft, IBM, HP, Lotus present their products, services and strategies; Barclays and BUPA present case studies.
T 01895-256484 F 01895-813095
email: nina@unicom.co.uk
LONDON

SEPTEMBER 11-12
Integrated Call Centre
SEPTEMBER 10
Managing the Integrated Call Centre
SEPTEMBER 13
Applying Integrated Call Centre Technology
Computer Telephone Integration has changed how telebusiness is carried out in the competitive commercial environment. The integrated call centre achieves even better results by bringing together point of sale and the WEB. Specialists from Ericsson, Mercury, BT, Vocalis and others explain the technology and the benefits
Tel 01895 256484
Fax 01895 813095
email nina@unicom.co.uk
LONDON

SEPTEMBER 11-13
Introduction to Foreign Exchange and Money Markets
Those involved in corporate banking or treasury need to understand Foreign Exchange and Money markets, their products and risk management techniques
* FX - Definitions, Key Players, Spot and Forward Basket and Cross Currencies * Money Markets Bank of England Operations, Discount Houses, Instruments * FRAs, Options, Caps, Collars and Floors, Swaps
3 days £795
Contact Fairplace
Tel 0171 623 9111 Fax 0171 623 9112
LONDON

SEPTEMBER 12-13
UK Housing - the Next Millennium
For senior management from • house builders and developers • local authorities • architectural practices • housing associations • manufacturers • trade associations. This conference will address the current and future challenges of environmental and energy issues relating to existing and new housing stock. The expert panel of speakers will be chaired by writer and broadcaster, Jonathan Dimbleby.
Contact: BRECSU Events.
Tel: 01923 664531/664511
Fax: 01923 664787
OXFORD

SEPTEMBER 16-18
Basic Treasury Management
Increase knowledge of treasury products, improving sales, profits and customer relationships.
* Instruments available to Manage Risks * Corporate Hedging Techniques * Transaction, Translation, Strategic Exposure * Financial Instruments for Contingent Risk * Using Annual Report Information to Target Risks and Opportunities * Cross Selling
3 days £795
Contact: Fairplace
Tel: 0171 623 9111 Fax: 0171 623 9112
LONDON

SEPTEMBER 17
Performers' Tax and Finance
Widely regarded as the premier event for advisers to sportsmen and entertainers. With tax authorities becoming more agressive in collecting what they believe is their share of the performers' earnings, along with the many recent tax changes, this event has never been more topical.
Contact: Kate Filleul, IBC UK Conferences
Tel: 0171 637 4383 Fax: 0171 631 3214
LONDON

SEPTEMBER 18
Tax Techniques For Property Transactions & Investment
A must for Tax practitioners following the many recent developments through changes in legislation, practice and case law. An invaluable update on the latest tax techniques for property transactions for all practitioners- whether advisers, developers or investors.
Contact: Kate Filleul, IBC UK Conferences
Tel: 0171 637 4383 Fax: 0171 631 3214
LONDON

SEPTEMBER 25
Managing Mobility - *Latest trends in international employment*
This conference is designed for HR professionals responsible for sending people on international assignments. Hot off the press results from ECA's 1996 Managing Mobility survey will update you on * career management * dual careers * family & education * selection preparation * repatriation based on the findings from over 350 multinational companies. Leading edge presentations from AT&T, Motorola and Cable & Wireless and workshop sessions keep you up-date on dual careers, family issues and career management.
Contact: Sharon Brown, ECA International
Tel: +44 (0) 171 351 5000
Fax: +44 (0) 171 351 9396
LONDON

OCTOBER 8
Hours of Work & the Working Time Directive
The Working Time Directive comes into force this November it will have a major effect on work scheduling and provides for mandatory paid holidays. (some flexibility is provide by many derogations). Know how it will affect your organisations led by Olga Aikin LLB, FIPD, this seminar guides you through the Directive and relevant case law. Hear too how it works in practical - Eurotunnel UK have adopted the restrictions on working time since 1993 their HR Director will explain.
Contact. Julie Amber at the Industrial Society Tel: 0171 839 4300
Fax 0171 839 3898
LONDON

OCTOBER 15 & 16
Developing the New IT Scorecard
Delivering business value is a recognised priority for I.T. The challenge lies in translating this goal into a measurable strategy. Packed with the latest thinking and practice, this is the only UK event where you will discover how to develop and implement a balanced I.T. scorecard.
Contact: Business Intelligence
Tel: 0181-543 6565 Fax: 0181-544 9020
LONDON

OCTOBER 20 - NOVEMBER 1
Retail and Wholesale Banking Seminar
2 week residential seminar for bankers from the emerging markets. Retail banking covering payments systems, credit assessment & trade finance. Wholesale banking including Foreign exchange, Money markets, Capital markets and derivatives. Highly *participative training seminar, incl.* educational visits to financial institutions in both weeks. £4,450 + V.A.T. fully inclusive tuition, accommodation and documentation. (15% discount 2+). Week 2 available separately.
Lywood David International Limited
Reservations - Fax: UK 44 1959 565821
LONDON

OCTOBER 21-22
Utility Week - IT in Utilities Congress
Hamburg Congress Centrum
The IT in Utilities '96 Congress and Exhibition is the second forum of its kind for senior managers in the electricity, gas, telecoms and water industries to meet and discuss effective IT strategies for European utilities. A comprehensive programme of conference presentations and specialised workshops will be augmented by an exhibition.
Conference enquiries: Alex Daniel, Int Conference 0171 404 7722
Exhibition enquiries: Ruth Eppey, Utility Week: 0181 652 3877
LONDON

OCTOBER 22—23
Business Performance Measurement
A two day conference addressing the key issues in the implementation of business performance frameworks including practical lessons in the Balanced Scoreboard, Process Benchmarking and Quality approaches.
Contact: Business Intelligence
Tel: 0181 543 6565 Fax: 0181 544 9020
LONDON

OCTOBER 24 & 25
FT TECHNOLOGY IN RETAILING
- Strategies for Success in a Rapidly Changing Environment
Arranged in association with Retail Technology magazine, this conference will address the major strategic and tactical issues identified by research to be of uppermost concern to retailers both in the UK and within continental Europe. Key decision makers from the retail sector, together with IT suppliers and consulting companies will discuss current and future developments.
Enquiries: FT Conferences
Tel: 0171 896 2626
Fax: 0171 896 2696
LONDON

OCTOBER 27 - NOVEMBER 1
Wholesale Banking Seminar
1 week residential seminar for dealers/bankers from the emerging markets covering wholesale treasury, Foreign exchange, Money market and derivatives and Capital markets. Highly participative training seminar, incl educational visits to Tullett & Tokyo Forex, Reuters and LIFFE. £2,350.00 + V.A.T. fully inclusive tuition, accommodation & documentation (15% discount 2+)
Lywood David International Limited
Reservations -
Fax: UK 44 1959 565821
LONDON

OCTOBER 30-31
Business Process Re-engineering
This conference and exhibition will re-define the role of management in the process based organisation, manages the *portfolio of performance improvement* techniques unlock the transformation potential of I.T., mobilises employees to achieve radical cultural change and taps the innovative power of people.
Contact: Business Intelligence
Tel: 0181 543 6565 Fax: 0181 544 9020
LONDON

NOVEMBER 4
FT LIMITING PROFESSIONAL LIABILITY
Senator Pierre Horsfall, President - Finance and Economics Committee, States of Jersey; Mr Colin Sharman, *UK Senior Partner, KPMG; Mr John S* Roques, Senior Partner & Chief Executive, Deloitte & Touche; Mr Robin Ellison, Consultant - Hammond Suddards, Member - Investment Committee, NAPF; Professor Steven Maijoor, Director, Maastricht Accounting and Auditing Research Center, University of Lindburg and Mr Jeffrey Peck, Managing Director - Office of Government Affairs, Andersen Worldwide are among the experts who will address this highly topical one-day conference. Speakers will discuss the several short term solutions to the problems posed by joint and several liability, as well as options for fundamental long term reform of the law.
Enquiries: FT Conferences
Tel: 0171 896 2626 Fax: 0171 896 2696
LONDON

NOVEMBER 11
Better Out Than In?
The limits of OUTSOURCING
This essential one day conference will reveal the facts of Outsourcing and review the options. Key speakers from Government, Industry and the Legislature will address vital issues surrounding IT Security, Legal Pitfalls and Managing both the Contract and Organisational Change.
Contact: Computer Security Research Centre, London School of Economics
Tel: 0171 955 6153 Fax: 0171 955 7385
WESTMINSTER LONDON

DECEMBER 12 & 13
FT WORLD PULP AND PAPER
The fifteenth FT World Pulp and Paper conference will provide a forum in which experts from the industry will provide up-to-the minute information about prize movements, supply and demand. At this dramatic time in the industry, no-one involved can afford to miss this chance to examine the issues with key decision-makers from around the world. Speakers will include: Mr John T Dillon, International Paper Company; Mr Arild Nielssen, Canfor Corporation, Chairman, The Canadian Paper Association; Mr H M Mansur, Indonesian Pulp & Paper Association; Mr Martin Glass, EMGE & Company; Mr Philippe Beylier, Arjo Wiggins Appleton plc; Mr Ramsay Hampton, Aylesford Newsprint Limited.
Enquiries: FT Conferences
Tel: 0171 896 2626 Fax: 0171 896 2696
LONDON

INTERNATIONAL

SEPTEMBER 4-6
Frank Fabozzi/IMN - Symposium on High-Performance Investing
Course explores absolute-return strategies open to European investors. Leading managers explain strategies including:
● Emerging Market Debt/Equity; ●Convertible Arbitrage, ● Global & European Equities; ● Merger Arbitrage; ●Commodities; ● Global Macro; ● US *Opportunity;* ● Distressed. Keynote address: David J. Askin
Tel: 1-212-768-2800 ext. 1
Fax: 1-212-768-2484
Email: imnreg@aol.com
MONACO

SEPTEMBER 22 - 27
Bank Financial Management International Seminar
Heighten your awareness of the key strategic variables affecting financial decisions in banking and consolidate your knowledge using BankMod, a computerised banking simulation For financial institution executives.
The Institute of Canadian Bankers
Tel: (514) 840-8720,
Fax: (514) 282-6450
e-mail: interinfo@icb.org
BANFF, CANADA

To Advertise in this Section Please call Lucy Batizovszky on 0171 873 3507

BUSINESS EDUCATION

LANGUAGE COURSES

To Advertise in this Section Please call Karl Loynton on 0171 873 4874

Karel Poborsky of Manchester United; Gianluca Vialli of Chelsea; Fabrizio Ravanelli of Middlesbrough; and Jordi Cruyff of Manchester United

Send on the funny guys

English soccer's wealth and drawing power won't last, warns Simon Kuper

It is too good to last. Second-rank English soccer clubs such as Chelsea, Middlesbrough and Newcastle will not field large numbers of the world's best players for ever. So it may be worth going to every match you can when the English Premiership's new season starts on Saturday, because the world's best will soon be signing for Italian, Spanish and sometimes German teams again.

Listen to Mark Fish, the South African who spent a few days on trial with Manchester United this year before signing for Lazio Roma instead. Fish is a 21-year-old bachelor. When I asked if he had turned down United because the women were prettier in Rome, he answered "Yes" well before I had completed the question.

Footballers prefer southern Europe for many reasons. The best Spanish and Italian teams seldom get knocked out of European competition in early autumn by sides from Copenhagen or the former Stalingrad. And the weather is better.

At present the stars are joining English Premiership clubs because these are now the richest in Europe – indeed, the richest anywhere after Japan. But that won't last. England has led football's commercial revolution, but the rest will catch up.

The Italians, Spaniards and Germans will learn what their product is worth. Italy and Germany are wealthier than Britain, and their satellite television channels are watched by most of the population – unlike BSkyB in Britain – so their clubs will be able to charge more than English clubs for TV rights.

In addition, they are learning from Manchester United that fans will buy anything with the club name on it, from life insurance to sleeping bags, so English fans should enjoy the influx of foreign stars for the couple of seasons it lasts.

Of course, the imports will help pack English stadiums. This is not solely thanks to their footballing skills. Many of them look very odd. Gianluca Vialli, now of Chelsea, has a shaven head. Fabrizio Ravanelli at Middlesbrough has white hair. Karel Poborsky, Manchester United's new Czech, has hair of the long, unwashed variety normally seen only on the third day of an indie music festival.

And Jordi Cruyff, Poborsky's new colleague and son of the great Johan, has longish blond hair and a striking surname. Jordi, a celebrity from birth, is the subject of one of the better Dutch poems of recent years, which compares him to Rembrandt's son Titus:

In the darkest of the night
Titus van Rijn
Often cursed that he was
Rembrandt's son.

Cynics might say English managers have signed freakish looking players chiefly to gull child fans into buying replica shirts. After all, a cool guy like Vialli sticks in the mind in a way that his normal looking team-mate Roberto di Matteo does not.

But there is more to it than that. The funny looking people were signed partly because they stuck in managers' minds. Bryan Robson and Alex Ferguson lack the time and foreign contacts to study many foreign players. They saw a few Euro 96 games, missed the characters with short-back-and-sides, and signed some of the others.

Hiring a scout to travel Europe looking for players would cost a club about £80,000 a year. If the scout found one first team player a decade, he would earn back his salary. Imagine if Harry Redknapp, West Ham's manager, had pursued a letter he received last year from a fan teaching in Prague. It advised Redknapp to buy the "brilliant" Poborsky, then unknown abroad and priced at only £200,000. Last month Manchester United bought Poborsky for an estimated £3.5m.

Of course, the English Premiership is more worldly than it was. Ruud Gullit at Chelsea became only its second foreign manager ever this summer (the Czech Josef Venglos failed dismally at Aston Villa a few years ago) and the finals of the European championship – Euro 96 – in England in June were an education.

That competition is the second reason why things are as good as they are going to get. The England players who reached the semi-finals learned how international football works. Steve MacManaman began diving to win free-kicks. Stuart Pearce showed why you mustn't give the ball away.

But Germany and France demonstrated what English club sides still have to learn. It is not that they lack skilful players: England's Premiership has David Ginola, Eric Cantona, Ryan Giggs, Robbie Fowler, Gullit and Juninho, whereas Euro 96 did not.

What Euro 96 did have was tight defences. Almost nobody scored. If you bunch the middle with three centre-backs and a defensive midfielder who stick to their opponents even when the opponents try dastardly tricks, such as running off the ball, it is hard to concede goals.

England, under Europhile Terry Venables, sealed up the back most of the time, although horrible mistakes by Gareth Southgate and Pearce gave away goals against Switzerland and Germany. The great test for Liverpool, Manchester United and Newcastle in Europe this season will come in defence.

But perhaps the main thing Euro 96 gave English football was confidence. England held Germany and Spain and hammered the Dutch – Venables' role models – 4-1. "All this really happened. There are millions of witnesses," reported the fanzine *When Saturday Comes*.

Against Holland, supporters even glimpsed what an English style of football could be: not the long-ball game, but the precise passing of the Europeans carried out with British pace and frenzy.

The memory of that match may reduce the present English awe of foreigners: many people see Gullit as a kind of Pele with Albert Einstein's brain. One reason why British neighbourhood clubs such as Aston Villa, Nottingham Forest, Aberdeen and Dundee United won European trophies in the early 1980s was that they thought they could.

But a lost Euro 96 semi-final at home should not persuade anyone that England will improve on that in the World Cup finals in France in 1998, when Brazil and Argentina join the mix. Football's coming home, but only for a quick visit.

Colin Amery · Architecture

Atlanta emulates St Petersburg

When the possibility of a permanent monument to the recent centennial Olympic Games in Atlanta was first discussed, a prominent Atlantan wondered if that meant his city could become "just like Paris". His reaction was the right one.

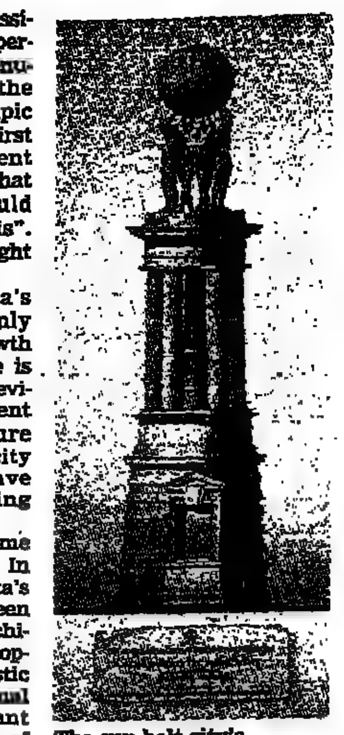
Until now, Atlanta's architecture has mainly reflected the rapid growth of a sun-belt city. There is no particular quality in evidence: for all its recent international exposure Atlanta is not yet a city where developers have insisted on employing world-famous architects.

There have been some achievements, of course. In the past, one of Atlanta's claims to elegance has been the way some of its architects continued the development of southern domestic classicism. Fine traditional houses among the giant magnolia trees are one of Atlanta's secret pleasures.

But great cities have monuments, and it was an inspired move by a member of Atlanta's architectural community to think of a monument that will permanently remind Atlanta of the centennial Olympics. However, official souvenirs of the Games smacked more of Disney than of the dignity of great athletes, and commemorating the Olympics with a monument raised difficult questions.

Should Claes Oldenburg have been asked to erect a giant baseball cap and a Coca-Cola bottle? Should Richard Serra have been invited to torture a piece of steel into some forged representation of Olympic effort, or Cy Twombley to produce the world's largest graffito?

The feelings of the man who wanted to bring a sense of permanence to Atlanta by referring to Paris had the right idea. He probably had in mind an Atlantan Arc de Triomphe, or a rival to the Eiffel tower. After all, Barcelona has Sir Norman Foster's tower marking the success of its Olympics in 1992.



The sun-belt city's prospective monument

In fact, Atlanta chose an original route. Rodney Cook, who runs an architectural practice in Atlanta, had been impressed by the ideas of Prince Charles about continuity of tradition and the need for a return to craftsmanship.

So he decided, with the support of the American Prince of Wales's Foundation for Architecture, to encourage students at the prince's school in London to enter a design competition for an Olympic monument. The competition produced some good results, the clear winner being a student from St Petersburg.

Anton Glikine came from Russia to London to study architecture and brought with him some of the understanding of monuments so evident in St Petersburg. After all, the monument to Peter the Great by Falconet (1776), with its prancing horse rising out of a huge natural rocky base, is one of the most effective and timeless monuments to a founder of a nation.

In turn, Glikine's design for Atlanta's Olympic monument is genuinely in the St Petersburg tradition. It is big. It is serious. It is original. It is also in the tradition of European designers working in the US.

The Statue of Liberty immediately comes to mind. Less well known but particularly distinguished is the brilliant Soldiers' and Sailors' Monument in Indianapolis, designed by Bruno Schmitz of Germany as a result of a competition in 1888.

A full scale maquette of the Atlanta monument was unveiled recently, Glikine having worked with an American architect, Peter Polites, to develop the design. The finished work will be as high as a four-storey building (some 48ft) and will stand on an important site in mid-town Atlanta, north of Pershing Point.

It has an Indiana limestone base and a circle of five Doric columns which support five giant athletes holding up an illuminated globe. The sculptured bronze figures were created by Martin Dawe of Atlanta's Cherry Lion Studios with assistance from sculptor Dick Reid of York. The limestone base has been carved by masons from Atlanta's Architectural Limestone Works.

There has been enormous local support for the monument in Atlanta and it is being funded by significant local businesses, charities and individuals. What they will get for their money is a calm and beautiful monument.

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ TODAY

Abbey Natl Treasury Svs 6% Gtd Nts '99 £60
British Steel 7p
BT Fin BV 8¾% Bds '99 US$437.50
Do 8.765% Bds 2009 US$438.25
Chubu Elect Power 6¾% '99 £67.50
Cohen (A) 9p
Do A 9p
Electrocomponents 4.6p
Flash Series Secd ETA FRN '07 Y250606
Heath (Samuel) 4p
Kobe 8⅞% '99 US$443.75
Ladbroke 8⅞% '03 £443.75
Mazda Motor 5.1% Bds 2000 Y510000
Do FRN's 2000 Y25692
Nomura Intl FRN's '04 US$134.19
Northern Elect 27.9p
Shelton (Martin) 3p
Shikoku Elect 6¼% Bds '03 US$62.50
Sterling Inds 5.7p
Victorian Public Fin 9% Bds '99 £96.25
Whitecroft 3.25p
Do 5.1% Pref 2.55p

■ TOMORROW

Anchor Intl Fund US$0.0377
Babcock Intl 1.75p
Dawson Intl 1.5p
Durban Roodepoort Conv 8% Prefd R1.44
Kuala Lumpur Bhd Int M$0.0333
Latham (James) 4p
Matheson Lloyd's Inv Tst 2p
Nordic Inv Bank 7.75% '98 £77.50
Phoenix Timber 0.2p
TLG 2.9p

■ WEDNESDAY August 14

Albion 0.8p
Carlton Comms 7½% Conv Bds '07 £187.50
CML Microsystems 6.1p
Colonial Fin Sub FRN's '05 US$297.80
De La Rue 16.5p
Hawtal Whiting 2.5p
Hornby 5.5p
Mansfield Brewery 4.2p
Marsh & McLennan US$0.80
Sanyo Elect FRN's '97 Y110891
Tamaris 0.051482
UMECO 3p
Vosper Thornycroft 16.7p

■ THURSDAY August 15

Abbot Labs US$0.24
Anglo Am Inv Tst 6% Gross Pref R0.06
Assoc Nursing Svs 2.45p
Barcom 0.4
Brockhampton 2.1p
Do A 2.1p
Century Inns 1.25p
City Mrtg Rec 1 Mrtgage-bckd FRN's '23 £48.90
Colgate-Palmolive US$1 US$0.47
Court Cavendish 3.52p
Fishguard Rail 3½% (2.45% net) Pref 1.225p
Housing Fin Agency 8¾% '18 IR£4.375
Independent Parts 4p
Sanwa Bank Can Fixed/ FRN's '05 US$1533.33
Scottish Met Prop 1.1p
Sears 7¼% Uns 92/97 £3.625
Somic 1.75p
SONAR 1 A Mrtgage-bckd FRN's '21 £142.30
Do B Mrtgage-bckd FRN's '21 £182.87
Do C Mrtgage-bckd FRN's '21 £204.23
Tanjong M$0.128
Universal Salvage 3.55p
Willoughby's Cons 1p
Do Prefd 1p

■ FRIDAY August 16

Brit Funds 2½% IL £2.1117
BTP 7.35p
Burtonwood Brewery 4.65p
Cropper (James) 2.8p
CS First Boston 7.375% '01 FFr737.50
Drive Secs A FRN's '96 £163.48
Do Mezzanine FRN's '96 £183.37
Evans of Leeds 2.12p
Forte 10% Mort Deb '18 £5
French 1.5p
Glass (David) 2p
Friendly Hotels 3.5p
Hunters Armley 1.5p
Metrotect Inds 0.35p
Microgen 2.4p
M & W 1.25p
NatWest Bank Prim Cptl FRN's B US$268.58
Do VRCN's '08 US$152.06
Nippon Credit Fin NV Fxd/ FRN's '04 US$2818.47
Prudential 7⅛% Bds '05 US$71.25
Ramsden's (Harry) 1p
Scapa 4.89p
Scottish Met Prpty 1.1p
Sheriff 2.35p
600 Grp 3.25p
SKOPBANK-Finnish B Und Sub VRN's US$162.92State Bank NSW 11¾% Bds '01 A$117.50
Do Extndble FRN's US$268.58

■ SATURDAY August 17

Peabody Donation 10.25% Secd '23 £5.125

■ SUNDAY August 18

Hambros Insurance 3.7p
Ulysses Sec 7.625% Asst Bckd Bds '06 IR5.08333p

UK COMPANIES

■ TODAY

COMPANY MEETINGS:
Aberdeen Steak Houses, Coventry House, 21 Coventry Street, W., 10.00
Heath (Samuel), Leopold Street, Birmingham, 12.00
Oceonics, Stonecutter Court, 1 Stonecutter Street, E.C., 10.30
TBI, Marriot Hotel, Mill Lane, Cardiff, 12.00
Warnford Investments, Chartered Insurance Institute, 20 Aldermanbury, E.C., 12.00

BOARD MEETINGS:
Finals:
Australian Opp Inv Trust
US Smaller Co's Inv Trust
Interims:
BPP
London Finance & Inv
Smith & Nephew
WPP

■ TOMORROW

COMPANY MEETINGS:
Caledonian Media Communications, 26 Finsbury Square, E.C., 11.00
Cropper (James), Burneside Mills, Kendal, 10.30
Mansfield Brewery, Mansfield Civic Centre, Chesterfield Road, Mansfield, Nottinghamshire, 12.00
New London Capital, Fountain House, 130 Fenchurch Street, E.C., 10.00
Safeland, 144 Great North Way, Hendon, N.W., 3.30

BOARD MEETINGS:
Finals:
Pifco
VDC
Interims:
BOC
General Accident
General Cable
Sedgwick

■ WEDNESDAY August 14

COMPANY MEETINGS:
Bolton Intl, 62 Threadneedle Street, E.C., 10.00
Lusty (John), The Registry, Royal Mint Court, E.C., 10.00
Mountview Estates, New Connaught Rooms, Great Queen Street, W.C., 11.30
Schroder UK Growth Tst, 33 Gutter Lane, E.C., 3.00
600 Group, 600 Centre, Shepshed, Loughborough, Leicestershire, 12.00
Somic, Bartle Hall, Lea Lane, Bartle, Preston, 12.00
Wilshaw, The Brewery, Chiswell Street, E.C., 11.30

BOARD MEETINGS:
Finals:
Celtic
Dunedin Japan Inv Trust
Interims:
F&C Income Growth Inv Trust
Glynwed Intl
Hemingway Properties
Independent Insurance
Jupiter Geared Cap & Inc
MAID
Telegraph

■ THURSDAY August 15

COMPANY MEETINGS:
Burtonwood Brewery, Rake Hall Road, Rake Lane, Little Stanley, Chester, 12.00
St James Beach Hotels, 24 Chiswell Street, E.C., 11.00
Tom Cobleigh, Riverside Farm, Shipton Road, Skelton, York, 12.00
Yates Brothers Wine Lodges, Moat House Hotel, 1 Higher Bridge Street, Bolton, Manchester, 9.15

BOARD MEETINGS:
Finals:
Kleinwort High Income
Life Sciences Opp Tst
Interims:
Clarke (T)
Ericsson (LM)
Fleming Income
Hadeb MacLellan
Lilleshall
Microvitec
North Midland Construction
Portmeirion Potteries
Rea Brothers

■ FRIDAY August 16

COMPANY MEETINGS:
Azlan, 1 Finsbury Avenue, E.C., 10.00
Foster (John), Black Dyke Mills, Queensbury, Bradford, 10.30
Fuller, Smith & Turner, Griffin Brewery, Chiswick Lane South, Chiswick, 11.08
Thorn EMI, London Marriott Hotel, Grosvenor Square, W., 10.30

Company meetings are annual general meetings unless otherwise stated. Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

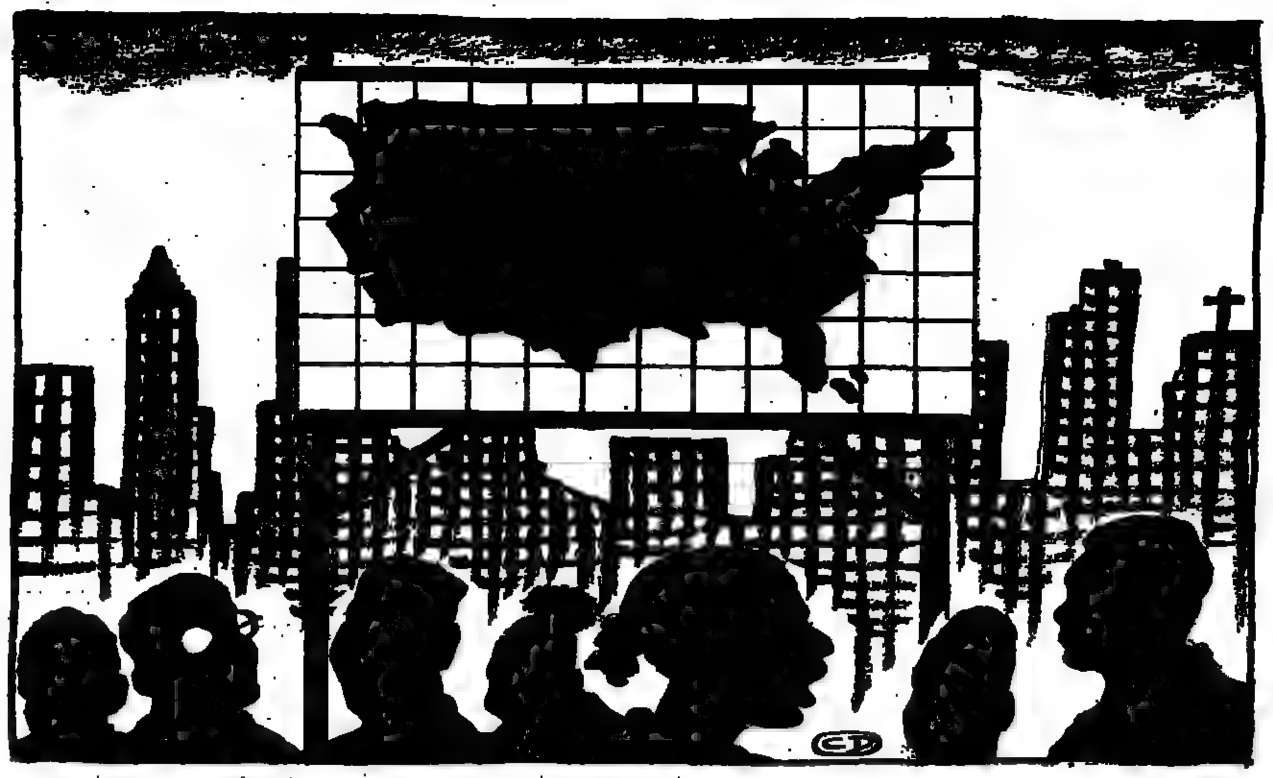
Black America starts to log on

Net hook-ups in US inner cities are increasing fast, writes **Victoria Griffith**

Every night, Gilbert Washington gets home from work as a hospital chaplain in South Bend, Indiana, and logs on to Prodigy. He corresponds by e-mail with friends and relatives, checks stock quotes, and reads some of the big news stories of the day. That is typical behaviour for an online browser, except that Washington is part of a demographic group many feel is ignored in cyberspace: he is black.

Growing numbers of African-Americans are expressing concern that as a race they run the risk of being shut out of the multi-media revolution. About 600,000 African-Americans use the Internet regularly, according to the US Census Bureau.

Based on total usage figures from Vanderbilt University, that means about 4 per cent of Internet browsers in the US are black. Since about 13 per cent of the total population is African-American, the statistics imply dramatic under-representation in cyberspace on their part.



For educated black America, "Log on!" is becoming a battle cry. Prominent African-Americans believe the Net offers the promise of better information, easier communication and an enhanced sense of community. "If you don't already have a computer, buy one or arrange to have access to one," advised the magazine *Black Enterprise* this year. "Surf the Net for information that can give you an edge."

As the Net grows in importance, black Americans fear they may be left behind. Their median income is only one-tenth that of whites, according to Black Heritage Products, which markets goods made by black-managed companies. That means many African-Americans may have trouble purchasing the equipment necessary to go online: a minimum of about $1,500 (£961.50) for a computer and modem.

Yet African-Americans are anxious not to be locked out of cyberspace. Many believe that what amounts to "black patriotism" is involved. "I tell all my friends and relatives to go online," says Washington. "We have to realise that embracing technology embellishes us as a race."

Many in the black community see their participation in the multi-media revolution as a way of increasing their power in society. Earl Graves, editor of *Black Enterprise*, urged readers in an editorial earlier this year to wage e-mail campaigns to create awareness of the black consumer market.

African-Americans are becoming far more visible in cyberspace. Two years ago, there was hardly any Net content aimed specifically at blacks. Today, more than 220 *African-American print* magazines and newspapers – including *Ebony*, *Emerge* and *Black Enterprise* – have a cyberspace version.

Online services are sponsoring Afrocentric sites such as America Online's NetNoir and Compuserve's African-American Culture & Art Forum. Last February, Black Entertainment television agreed to provide content for the Microsoft Network.

"As we get more sites like mine in cyberspace, more African-Americans will see reasons for going online," says David Ellington, who runs NetNoir. Ellington describes his site as a celebration of black culture in America. "There still needs to be more content for blacks, but it's a lot better than it was even a year ago."

A Webcrawler search yields nearly 10,000 Web locations with an African-American theme. Subjects range from where to buy African clothing to advice on black adoptions, black scientific forums, information about black universities and job listings at black-run companies. "There may not be many blacks at the centre of the Internet revolution, but there are a lot at the periphery," says William Murrell, who runs the African-American Culture & Art Forum.

NetNoir's advertisers include Columbia Records, which provides brief sound clips from African-American recording artists; Spiegel, which offers a special clothing collection for blacks; and Hallmark, whose Mahogany brand greeting card collection features sketches and photographs of African-Americans.

Most advertisers – and the Afrocentric sites they use – target middle- and upper-income blacks, who will probably account for most of the growth in Net use by blacks during the next few years. It is a sizable group. According to the Census Bureau, about 5.4m black American households have an income above $25,000 a year. "There's a significant number of us out there who are certainly making enough money to get on to the Net," says Murrell.

Even households that earn less than that have ways of getting hooked up. Numerous non-profit organisations provide low-cost or free Net usage. Career Link, a Boston group that helps low-income inner city workers find work, offers computer access *at its downtown headquarters*. A growing number of public libraries provide Net hook-ups. And local churches, such as the Concorde Baptist Church in Brooklyn, New York, introduce their congregations to the joys of online life.

The computerless can also take advantage of pay-per-use cyberspace centres like CyberSmith or its African-American equivalent, New York's Kokobar.

"If you really want to get online, you can," says Alfred Edmond, executive editor of Black Enterprise. "In my Brooklyn neighbourhood, I see supposedly poor kids wearing Air Jordans [an expensive brand of tennis shoe]. It's a question of priorities."

Yet many African-*Americans remain* concerned about the implications of the so-called media revolution. "Even if they can use the Internet in a library, that's not the same as having it in your home" says Samuel Fulwood, a Washington correspondent for the Los Angeles Times. "A lot of poor people, many of whom are black, will not be hooked up, and black people may be disproportionately out of the loop, which is troubling. They are talking about voting on the Net. What does that imply for black Americans' participation in the democratic process?"

As more "town hall" meetings are staged on the Net, analysts predict, the question of access will become increasingly urgent. Some politicians may push for universal access, which would oblige multi-media companies *to offer their services to* all, just as AT&T was forced to guarantee universal telephone access prior to its break-up.

"It's going to become a hot-button issue," says Stan LePeak, an analyst at research company Metagroup. "But I don't think it will fly. Does every American really deserve a $1,000 personal computer and free online time? I think the answer will be no."

Ironically, many believe poor inner-city communities would make valuable use of the Net given a chance. Two government-sponsored projects – Four Corners in Boston and Making Healthy Music in Newark, New Jersey, which together involve more than 200 people – have put the urban poor in touch *with their neighbours, and* have been deemed a success. These initiatives give single mothers on low incomes access to the Net, setting up chatrooms and community noticeboards.

"People found it especially valuable, because in dangerous urban areas, they are afraid of crime and don't like to get out of the house to meet people," says Michelle Shaw, who helped run the schemes.

Computers are rapidly becoming cheaper, and some analysts predict that in five years they may cost no more than good television sets.

"It's just a matter of time until everyone is hooked up," says David Ellington of NetNoir. "There's a lot of money invested here and people will want to capitalise on the Net as a marketing tool. Since black people *spend a lot of consumer dollars*, they're bound to be included in the long run."

Tim Jackson

Profit from gossip

It sounds like a depressing science fiction film: lonely people, gazing at the flickering screens of their home PCs in the middle of the night, and exchanging bar-room banalities via keyboards across the Internet with people they have never met and are unlikely ever to meet. Yet online chat is not merely one of America's fastest growing leisure activities; it is also the foundation of a number of billion-dollar businesses.

Industry estimates vary, but revenue from chat probably accounts for about 40 per cent of the sales of companies such as CompuServe and America Online. Unlike Internet service providers, which generally sell unlimited access for a fixed monthly fee, the proprietary online services charge by the clock after only a few hours' use each month.

That means they make money from every minute for which customers are engaged in this bizarre *social phenomenon*. As my own experience of chat is limited to a couple of short sessions which I abandoned out of boredom, I turned for an insight to Jeff Pulver in upstate New York, the publisher of a popular Web site *(http://www.pulver.com)*.

A measure of Pulver's enthusiasm for the Net is that he has a T1 data line, a capacity normally used only by large companies, running into his living room. "OK," he said "I confess. I really like chat." The chat urge hit him most often on Friday nights after the science fiction series *The X-Files*. Since his wife had better things to do than watch the programme, he needed friends to discuss it with – and heading upstairs, he would log on to the Net and plunge into a group of people exchanging views *on plot and characterisation* in the programme just broadcast.

At first sight, the preponderance of US participants may give the impression that online chat is a natural extension of the garrulous, outgoing character of Americans. But Jody Turner, head of content development for CompuServe in the UK, explains that the more reserved Brits are equally keen. Once online, they also lose their national reserve.

CompuServe can claim to have been the pioneer of chat, with a software package called CB Simulator that encouraged customers to think of the service as a kind of electronic citizens' band.

Until now, enthusiastic chatters had only one alternative to the paying online services – Internet Relay Chat. Chaotic, public, and unstable, this free technology delivers a considerably less satisfying experience. A favourite nerd's game is to use "bots" (robot software) to colonise a "topic", and crowd out all the other participants. It is the equivalent of a party taken over by yobs who switch the music up too loud and start *breaking bottles over heads*.

But the World Wide Web is now becoming a serious competitor to traditional online chat. Several companies, backed by serious venture capital and powerful media businesses, have been drawn into the market by the realisation that a lively chat forum is one of the cheapest things that can bring surfers to a Web site time and again.

Software to turn a Web site into a chat service is proliferating. Programs are available that plug into Netscape's browser, allowing Web users to see a frame at the bottom of the page with chat running across like a tickertape.

Also available on the Web are avatars – cartoon images or photos chosen by each *participant* as a personal emblem. Software designed by Ubique, an Israeli company, allows users to look at a screenful of people, and use a mouse to move their own avatar up to people they wish to talk to. More exotically, they can gather a group of avatars for a private chat, or load them on to a camel and take them, still chatting, on a journey to a different Web site.

A still more powerful development is likely to emerge within months: audio. Net telephony already allows live voice to be carried. Now a range of products will make it possible to chat using the vocal chords instead of the fingers, and, indulging the common habit of chatters to lie about their age and sex, to use distortion software to disguise one's voice.

ComputerLetter, an industry newsletter available at *klein@technologicp.com*, asks in a thorough recent survey of the subject how companies will make money from chat. It postulates different models, including usage fees. One firm charges $1.95 (£1.25) a month, compared to CompuServe's $2.95 an hour and *one-off fees for software*.

My view is that the only money made will be by software companies selling chat packages to Web site owners. To the rest of the world, chat will become another standard facility of free Web browsing.

That will not happen in a hurry. The chicken and egg problem will plague those who try to establish chat services to compete with existing services: nobody will come, even for free, unless others are there and chatting already.

But in the long term, the days in which people will pay per hour for the privilege of chatting with others across the Net are numbered. The chat phenomenon will fragment, fleeing to thousands of different Web sites where groups of enthusiasts will pursue conversations, *undisturbed* by gatecrashers.

tim.jackson@pobox.com

Cyber sightings

● The Business Software Alliance – a group of leading software producers including Microsoft, Lotus, Novell, Adobe and others – has adopted new measures to combat software piracy and distribution of illegal software via the Net. Information on the association's activities, which focus on working closely with European police, can be found at its Spanish-language site *www.onnet.es/bsa*

● NatWest Electronic Markets' Banking on the Future project (*www.botf.natwest.co.uk*) may be worth checking out regularly. You have to register, but there is plenty of good content, particularly the technological innovations section.

● Aslib, the UK Association for Information Management, has an interesting conference in London on September 26-27, entitled: Evaluating the Intranet as part of your knowledge management strategy. Details and programme are to be found at *www.aslib.co.uk/index.html*

● Another upcoming conference is Telework 96, in Vienna, November 4-6. Details can be found at *www.bca.co.at/bca/tw96*

● America's Business Funding Directory (*www.businessfinance.com*) puts entrepreneurs in touch with potential investors and funding sources. It claims to have more than 13,000 registered sources of funding, and plans to develop a downloadable business software section. You have to belong to a chamber of commerce or trade association, or subscribe to a business publication, to sign up.

● For a really nice site, visit Los Angeles-based Windham Hill Records (*www.windham.com*): tasteful images in keeping with the peaceful, ambient music the label is famous for, as well as good artist and tour information using an interactive map, and downloadable clips.

● The dual-language Kobe University Research Institute for Economics and Business Administration Library (*www.rieb.kobe-u.ac.jp/rieblib/index.html*) has a very long name, but also a fine selection of texts. It's a gateway to WebEc – Web Resources in Economics (*http://netec.wustl.edu/WebEc*). This site has more information and more subject-ordered links on economics than most sane people will ever need. In fact, you could even call it indispensible.

● There are hundreds of Net travel guides, but The World Travel Guide (*www.wtgonline.com*), put up by Columbus Internet and sponsored by AT&T, is pretty slick. It has a searchable country index, is easy to navigate, and boasts good graphics

steve.mcgookin@ft.com

Financial Times on the World Wide Web
www.ft.com

Travel News • Roger Bray

Fares set to fall

Air fares in Europe will fall in real terms over the next five years. Despite pressure on airport and airspace capacity, the Brussels-based Association of European Airlines believes the downward trend in the average price per kilometre, which started a decade ago with moves towards airline deregulation, will continue.

Competition, it says, will keep forcing airlines to attack costs. Between 1986 and 1990, fares fell by an average of 3 per cent a year on intra-European routes, after inflation was allowed for. Since then, the annual reduction has been 2.7 per cent. Between now and the turn of the century the real rate of decline is expected to slow to 2.3 per cent.

The association's 26 members, which include Air France, Lufthansa, KLM and British Airways, is forecasting an annual average increase of 6.4 per cent in passenger traffic on routes within Europe during the same period.

More destinations

United Airlines plans a huge expansion of its no-frills Shuttle operation on the US west coast. At the end of October it will start flying from San Francisco to six more cities, increasing its daily departures from 364 to 410.

The operation was developed by the carrier's employees. It offers single fares as low as $25 (£16) on flights between 12 west coast cities.

Gridlock working

Guests at the newly renovated Regent Bangkok need no longer sit and fume at the city's gridlocked traffic. The hotel has introduced a fleet of 19 Mercedes-Benz limos which double as mobile offices. Clients may use a video, computer, fax, tape recorder or telephone, or watch TV.

Travellers may even order room services from the car, so that food and drink arrives minutes after check-in.

Smoke-free zone

Whether or not they smell or inhale other people's smoke, many air passengers object to cigarettes in principle.

That is the conclusion to be drawn from a two-week trial by German carrier Augsburg Airways, during which it offered customers free smokeless and odorless cigarettes. An overwhelming majority was not in the least bothered by them. But 7 per cent still objected.

The airline also found that on flights up to two hours, even heavy smokers were prepared to forego lighting up.

The price of air

Harassed or jetlagged travellers to Toronto can now sharpen their wits with a lungful of pure oxygen.

What is claimed to be Canada's first "oxygen bar" has opened there on Yonge Street. Taking its cue from Japan, where the idea is already established, the o2 Spa Bar claims a 20-minute session will increase energy, stamina and mental alertness. It costs C$16 (£7.50) a time.

Ride to destiny

While drivers of London's black taxis learn the capital's geography through an exhaustive process called "doing the knowledge", it seems their counterparts in Mexico City leave it to fate.

A letter to Executive Travel magazine quotes the following message in English on a voucher, purchased to cover the ride into town from the airport: "Only four persons – one destiny."

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	29	29	27	32	30
Hong Kong	32	32	32	32	31
London	22	23	24	22	20
Frankfurt	22	21	22	21	20
New York	27	28	28	29	28
L. Angeles	25	26	26	26	26
Milan	23	25	26	26	26
Paris	19	22	23	24	22
Zurich	17	19	22	21	23

Information supplied by Meteo Consult of the Netherlands

Maximum temperature in Celsius

Amon Cohen samples the different styles of two new small airlines' services to Amsterdam

When executives go Dutch

World Airlines and easyJet are both new, small British airlines in dispute with KLM. Both have complained to the European Commission that the Dutch flag-carrier is abusing its dominant position in the London-Amsterdam air market, not least through predatory pricing. In addition, easyJet has issued a writ against KLM.

Although they are united on this front, the two carriers could hardly offer a more polarised style of service, as I discovered when I flew from London to Amsterdam recently with World and travelled back with easyJet.

One of the main differences between them is their choice of London airports. Both use Amsterdam's Schiphol, but World, a one-route airline, chooses to fly from London City airport, whereas easyJet flies from its home at Luton airport.

On the day that I sampled the service of World, Ian Gibson, UK chief executive of motor maker Nissan, was enjoying a rare treat: a trip in business class. Gibson was one of four other passengers in business class, savouring a free upgrade secured for him by Nissan's travel agency.

In spite of his rank and the fact that he flies up to 300 times a year, Gibson is subject to the same egalitarian travel policy as all Nissan employees in the UK: all flights are economy class except for long-haul travel, when business class is allowed if the return journey is within a week.

The flight to Amsterdam was the luxurious leg of my journey. World prides itself on pampering its passengers, even though its BAe 146-200 aircraft are in the air for only 50 minutes. Selling points include luxury leather seats with a generous 33in pitch, sumptuous food, vintage wines, and a wide array of free magazines.

A return flight with World can cost anywhere between £87 in economy (for a heavily restricted fare) and £290 in business. World also offers business-class passengers a free night in an Amsterdam hotel. A return with easyJet, a cheap but relentlessly cheerful low-cost operation, is priced at between £70 and £130.

This was Gibson's second flight with World, and he was impressed. "I am flabbergasted by the service. It is not what you expect on short-haul," he said, having tucked into a breakfast of smoked haddock omelette, asparagus, potatoes sauteed with rosemary, grilled tomatoes, fresh orange juice, melon, rolls and croissants. The aircraft itself also won top marks: the 146 is quiet, comfortable and spotless.

Gibson, based in Sunderland, was on the flight because he had spent the previous night in London and had just attended an early morning meeting in the City of London. From there, he was hopping over to Amsterdam for another meeting and intended to fly home to Newcastle airport that same evening.

It was because of this itinerary, and not the cosseting, that he was aboard the World flight. "The things that I need are convenience of location, schedule and flexibility in that order," he said. London City was therefore the obvious choice following his appointment earlier that morning.

The airport, not the airline, was also why Amsterdam-based Ronald Ouwens was aboard. Ouwens is financial controller of loss adjusters Cunningham Europe, and had been attending a meeting in London at the Tower Hill head office of Hambros, its parent company.

He was impressed with the service and said he would never fly with an airline such as easyJet. "Low-cost travel is not for business purposes," he said. "Once you have bought a ticket, you cannot change it."

But on the easyJet flight, Jan Van der Velden, a compatriot of Ouwens, said he did not find the inflexibility a hindrance. "The fares are so inexpensive that it is not a problem if you have to buy a new ticket for a different flight," said Van der Velden, who owns a small technical wholesale company in Haarlem.

London to Amsterdam: a comparison

World Airlines	
UK departure airport:	London City
Number of return flights per week:	22
Price (return, economy):	£87–£188
Price (return, business):	£234–£290 (reduced to £199 as introductory offer)
Aircraft fleet:	Two BAE146-200s
Age of fleet:	11 years (fully refurbished April 1996)
Catering:	Upmarket food and beverages
Other routes:	None

Easy Jet	
UK departure airport:	Luton
Number of return flights per week:	18
Price (return):	£70–£130
Aircraft fleet:	Two Boeing 737-200s; two 737-300s.
Age of fleet:	7–17 years
Catering:	Pay trolley
Other routes:	Luton to Aberdeen, Edinburgh, Glasgow, Barcelona and Nice

Being self-employed, he said, he was driven primarily by price. "When I worked for the national steel company, I used to travel business class, but that is only OK as long as you are spending someone else's money."

However, airport location was also important. Luton is conveniently placed for the many clients he has in the Midlands. Flying with easyJet costs him Fl 99 (£38) one way, whereas he says a return fare with a more established airline to Birmingham would set him back Fl 800-Fl 900.

Van der Helden was perfectly happy with easyJet's inflight service where you certainly don't get what you don't pay for. The interior of the 17-year-old Boeing 737-200 was marked and scuffed and the carpets were threadbare, while catering consisted of a trolley selling drinks and a few snacks. The trolley was pushed by extremely youthful cabin staff wearing orange polo shirts and black jeans. For 70 minutes, though, it was perfectly bearable.

"It is like a bus. You just hop on and hop off," said Van der Helden. "The crew wear jeans but they are not sloppy. They are at least as safety-conscious as other airlines." Furthermore, the flight, which had about 50 passengers on board – of whom approximately 15 were business travellers, judged by a count of suits – took off and arrived on time, while the ticketless check-in only took about 30 seconds.

Another passenger on easyJet, Martin Leith, had several grievances from earlier flights. Among them were waiting a long time for the catering trolley, lengthy check-in queues and a hatred of Luton.

Leith admitted that this last gripe was mainly founded on prejudice but it was also partly based on his lack of confidence in the shuttle to the train station, which theoretically runs every 15 minutes and takes 10 minutes to journey through the town's unappetising streets.

Matters will be improved next year, when a new station will open much closer to the airport.

Even without that improvement, however, the Luton airport transfer seems perfectly acceptable because it is a very short journey from the aircraft to the arrivals lounge. It took me about 70 minutes from leaving the aircraft to reaching London St Pancras railway station, which I reckon is just as fast, if not quicker, than travelling to central London from Heathrow.

In any case, as Leith admits, easyJet's good points outweigh any bad ones. With easyJet, cheap fares are clearly an important factor, although airport location matters equally for business travellers on both airlines.

Safety in the bag

Bristol airport, in the UK's west country, looks like beating many of its busier European rivals with the introduction of 100 per cent baggage screening, Roger Bray writes.

Security experts complain that some governments have been speedier than others in ordering the internationally agreed crackdown.

The UK has decreed that, by the end of the year, arrangements must be in place to screen all bags checked on international flights from UK airports, as well as carry-on bags.

Bristol handles only about 1.5m passengers a year. Its x-ray system should be in action from October 1.

● British Airways wants to resume flights to Peru after more than a decade of absence, according to Carlo Perez, the airline's representative in Lima. BA plans to expand its routes to the South American country between 1997 and 1998 after evaluating how the Peruvian market responds to its recent alliance with Aero-Peru.

BA hopes the pact will permit it to transport some 400 passengers a day between Lima and London via Miami, Perez said.

هكذا من الاصل

هكذا من الاصل

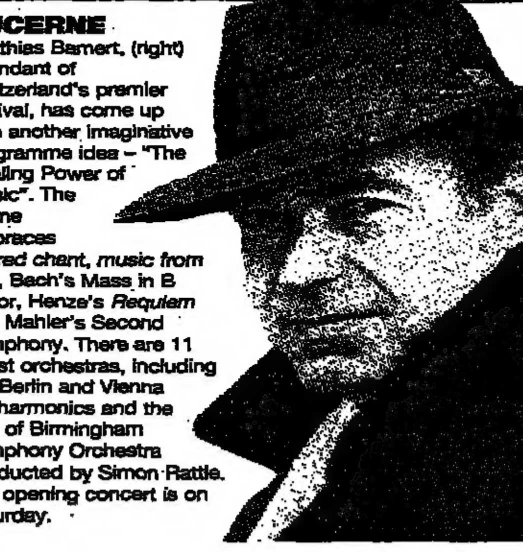
ARTS

OPENINGS

EDINBURGH
Robert Wilson's staging of Virginia Woolf's *Orlando* opens at the Royal Lyceum Theatre tomorrow, starring Miranda Richardson (below). Robert Lepage's *Elsinore*, in which the director performs his own distillation of *Hamlet*, opens at the King's Theatre tonight. Mark Morris, darling of the festival, appears with his company in three of his most intriguing dance works from tonight until Wednesday.

DUBLIN
The New York Philharmonic Orchestra, conducted by Kurt Masur (above), begins its European tour on Thursday at the National Concert Hall, followed by appearances at the Edinburgh festival and the London Proms. The orchestra will also visit Lubeck, Copenhagen, Lucerne, Salzburg, Turin and Berlin. Tour repertoire includes Ned Rorem's English Horn Concerto and symphonies by Beethoven, Bruckner and Tchaikovsky.

LUCERNE
Matthias Bamert, (right) intendant of Switzerland's premier festival, has come up with another imaginative programme idea – "The Healing Power of Music". The theme embraces sacred chant, music from Bali, Bach's Mass in B minor, Henze's *Requiem* and Mahler's Second Symphony. There are 11 guest orchestras, including the Berlin and Vienna Philharmonics and the City of Birmingham Symphony Orchestra conducted by Simon Rattle. The opening concert is on Saturday.



INNSBRUCK
The programme of this year's baroque music festival is headed by Pietro Antonio Cesti's little-known opera *L'Argia*, composed in 1655 for Queen Christina of Sweden on the occasion of her visit to Innsbruck. Rene Jacobs conducts, Jean-Louis Martinoty directs and the designer is Hans Schavernoch. The first night is on Sunday at the Landestheater, and the festival continues until the end of the month, with concerts in a variety of handsome castles and churches.

ROTTERDAM
The Boijmans Van Beuningen Museum is one of several European galleries marking the tercentenary of the 18th century Venetian painter Giovanni Battista Tiepolo (above). Starting on Saturday, it presents a survey of his work in Dutch collections, plus paintings by his followers and two sons.

Iconic responsibility: Arnold Schwarzenegger in the latest action extravaganza 'Eraser'

Blown away by Hollywood

Nigel Andrews on the explosive pros and cons of the summer blockbusters

One thing has become clear after this summer's movie blockbusters. The world will end not with a bang nor a whimper, but with a long credits roll of visual effects craftsmen. It is scarcely possible any longer to envisage a non-digital Judgment day, or to believe that God's voice, when it booms out the Apocalypse, will not be on multi-track stereo starting behind our heads and circling round to the front.

For optimists *Twister*, *Independence Day*, *Mission: Impossible* and Arnold Schwarzenegger's latest vehicle, *Eraser*, have brought some good news and some better. First, we have had a sequel-free summer, a phenomenon not experienced in years. Second, the cinema's verisimilitude techniques have reached a description-beggaring peak of achievement. Digital imaging, aided by digital sound, can represent absolutely anything, with the possible exception of human beings behaving like human beings.

Hence the unease experienced by some hard-to-please critics, even as rushing tempests shake their press handouts or explosions rock their paper coffee cups. The scenery today is upstaging the characters. Effect is overwhelming affect.

This matters less than it might in *Independence Day*, the summer's record-breaking front-runner, since the object of the game is to wipe out as many millions of people as possible before finding an extra-spectacular way to wipe out the wipers-out.

This science-fiction epic is a shameless, almost freely confessed numbers game in which the lead characters are count-down callers at a potential Armageddon. They are differentiated as simply and heraldically as player pieces in a board game. "Mr Black" is the Afro-American fighter pilot (Will Smith), "Mr White" is the President (Bill Pullman), "Mr Green" is the queasy alcoholic crop-duster played, for rather more than the scripted role is worth, by Randy Quaid.

The poverty of characterisation is more distressing, certainly more obtrusive, in *Twister*. This tries ill-advisedly to match its tornadoes with "real" and ruggedly weather-beaten human beings. But the humans here are truly beaten by the weather. The standardised characters with their standardised crises – divorce, jealousy, career ambition – are blown off the screen by special-effect hurricanes that we are far more ready to believe have their own minds, wills and passions.

This writer's theory of what is happening in the age of digital sound and fury to human interest, as it used to be called, is the one-day cricket scenario. Just as subtlety and guile die on the pitch when everything is reduced to a slog-out between irresistible-force batsmen and immovable-object seam bowlers, on screen the larger and more cosmic the destruction impetus represented, the more it tends to beget a human opposition consisting of beleaguered ciphers delivering down-the-line, B-movie dialogue.

Past disaster movies and densely populated action films solved this problem by filling their casts with stars. This way, although the dialogue may not have been Flaubertian, at least there was Charlton Heston, Paul Newman or Ava Gardner bringing their own medium-rich brand of idiomatic infill.

Today, most expensive action films cannot afford big stars: all their spare change goes on the computer graphics. Those that do spend money on a marquee name, such as Tom Cruise in *Mission: Impossible* or Arnold Schwarzenegger in *Eraser*, burden him with so much iconic responsibility that he too ceases to be human. The rule is inexorable. Those that are not ciphers are – larger ciphers.

A little less than three years ago in Hollywood, I ran into two barely known European directors starting to make their mark on American action cinema. Back then I wove the two interviews into an article entitled "And they came from outer Europe". The men were Jan De Bont and Roland Emmerich, who have gone on to conquer the world this year with *Twister* and *Independence Day*.

In 1993, they knew no more than I what the future held. Indeed – and here is surely the moral about cinema and its vengeful, mischievous serendipity – their admonitions about good and bad movie-making wryly and inadvertently demonised the very shortcomings that their succeeding superhits would expose.

"There's always an audience for good sci-fi pictures," averred Emmerich, who had just made the characterful, low-budget space fantasy *Stargate*. "But they must come from the heart. The fans come to these films because they want an 'event', they want to get into another world. But it has to be original. There have to be enough emotional, personal things you can relate to. There has to be a theme and characters you can relate to."

Theme? Characters? Heart? In *Independence Day*?

Meanwhile, De Bont insisted that an audience had to be treated "with respect".

"They have paid their $8, they must be given something they can take seriously," he said. And

> *Today, most expensive action films cannot afford big stars*

analysing the success of his first film *Speed*, that modestly made master-thriller about a runaway bus: "Everything should be real. The people on the bus are people you believed could be on the bus. If you were to put Bruce Willis on, you wouldn't believe it. I took away as much that was violent or far-fetched as I could."

Yet the $70m *Twister*, unlike the $20m *Speed*, treats its audience with almost scurrilous contempt. It parades its cardboard, stereotypical characters through a plot as far-fetched and physically sensationalist as any large-screen rollercoaster in history.

So what are we to believe? Probably that present-day audiences don't want characters or don't need them if the effects are big and snazzy enough, and that film-makers too give up on characterisation if they are convinced that computer-enhanced cataclysms can carry the day.

Perhaps too, though, peering further into the smoke and mayhem and last-trump pyrotechnics, there is another dimension. In the unmediated laying-on of hands that is the modern Hollywood action spectacle the audience itself is the "character". The story of *Twister* is not about a group of stick figures being blown around Kansas by poor weather, it is about us being blown around by special-effects meteorology.

The story of *Independence Day*, likewise, is about us cowering in our seats at the wall-to-wall, floor-to-ceiling shadows cast by the alien ships: Messrs Smith, Pullman and Quaid are merely incidental. And *Mission: Impossible* and *Eraser* also privilege the audience as the main dramatis personae. For movie characters drawn and numbered in depth would merely get in the way of the direct screen-to-stalls trajectory of the bullets, explosions and apocalyptic one-liners. Indeed *Mission: Impossible*, with a teasing and surely deliberate insolence, throws almost all its supporting characters off the plot carousel in the first scene.

So the thin line between feature film and fun park becomes thinner with each Hollywood summer. We should not necessarily mourn the trend. "Characters", "themes" and "heart" can all be found in other smaller movies. But we should at least make ourselves aware, and wary, of the trend. A film is a film, and a fairground ride is a fairground ride, even though both are now available at your local cinema.

Theatre

Musical milestone

The place of *The Fantasticks* in musical history is secure and gets more secure by the day. It opened off Broadway in the Sullivan Street Playhouse in 1960 and never closed. But *The Fantasticks* must have more than curiosity appeal to make it the longest-running musical in the world, and its youthful creators – Tom Jones wrote the words and Harvey Schmidt the music – did move on to bigger things with *I do! I do!*. The chance to see a rare UK revival, in a suitably intimate theatre, is irresistible.

And should not be resisted. What a world was lost with the coming of the "me" generation and the sexual revolution of the 1960s. Like its near-contemporary *Salad Days*, *The Fantasticks* belongs to an age when charm and whimsy were still regarded as entertaining.

The Fantasticks is made even more irredeemably twee by being based on a play, *Les Romanesques*, by the French romantic versifier Rostand. It is superbly soppy and wonderfully wet.

This can cause problems for the cast – how do you resist winking at the audience? Jonathon Morris (yes, the *Bread* man) as El Gallo, the worldly matchmaker, almost crosses the bar with a performance of effortless egotism, but Joseph Millson, as the enthralled youth Matt, is commendably whole-hearted, even when wooing a lispy Luisa in which Katey Crawford Kastin veers closer to Violet Elisabeth Bott than a breathless 16 year old. Their great duet "They Were You" could have been a happier experience.

But you must leave your critical baggage at the bar, surrender to the dreamy sentiments of the celebrated opening song "Try To Remember", and drift through two hours of fairy-tale enchantment.

Michael Cotterill as a Shakespearean ham and Kim Joyce as his sidekick specialising in death scenes provide some much needed comic low-life, and just to ensure you return for the second half there is the clever conceit of the happy ending arriving with the interval.

Dan Crawford provides a light directorial touch to a basically bare stage, and although El Gallo's departing moral "You Must Keep the Wall" is baffling, there is no escaping the pleasure in experiencing the mushiest of musical meringues even in this under-cooked form.

Antony Thorncroft

At the King's Head, N1, until September 1.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-5730573
● Jeugd Orkest Nederland: with conductor Roland Kieft and hornist Jacob Slagter perform works by Bus, R. Strauss and Brahms; 8.15pm; Aug 13

EXHIBITION
Van Gogh Museum Tel: 31-20-5705200
● The Colour of Sculpture 1840-1910: this exhibition demonstrates the methods and materials used by 19th century artists to apply colour as an expressive medium to their sculptures. The exhibition, featuring 100 sculptures in colour, is divided into five categories: Classicism, Neo-Gothic, Salon Art, Impressionism, and Fin de Siècle. Artists represented include Camille Claudel, Charles Cordier, Paul Gauguin, Arnold Böcklin, Jean-Léon Gérôme, John Gibson, Medardo Rosso, Fernand Khnopff, Max Klinger, Pablo Picasso, Auguste Renoir and Auguste Rodin; to Nov 17

■ BERLIN

EXHIBITION
Neue Nationalgalerie Tel: 49-30-2662662
● Georg Baselitz: large retrospective exhibition devoted to the work of Georg Baselitz. The display includes 100 paintings and 10 sculptures from European and American collections; to Sep 29

■ CHICAGO

EXHIBITION
Museum of Contemporary Art Tel: 1-312-280-2660
● Negotiating Rapture: a loan exhibition featuring work by international contemporary artists, including Francis Bacon, Joseph Beuys, Lucio Fontana, Shirazeh Houshiary, Anselm Kiefer, Agnes Martin, Bruce Nauman, Barnett Newman, Ad Reinhardt and Bill Viola; to Oct 20

■ DUBLIN

CONCERT
National Concert Hall – Ceoláras Náisiúnta Tel: 353-1-6711888
● The New York Philharmonic: with conductor Kurt Masur and hornist Thomas Stacey perform works by Rorem and Bruckner; 8pm; Aug 15

■ LONDON

EXHIBITION
Institute of Contemporary Arts – ICA Galleries Tel: 44-171-9303647
● Gabriel Orozco: the first solo exhibition in Britain by the Mexican sculptor. Orozco takes his cues from ordinary, often urban, settings and even more prosaic materials, such as a rubber inner tube, a lumpen ball of plasticine, a tin of cat food or the cap of a yoghurt container; to Sep 22
Tate Gallery Tel: 44-171-8878000
● Hans Hartung: exhibition featuring more than hundred drawings by this German-born artist (1904-1989). The show explores his precocious discovery while still a teenager in Germany of gestural abstraction which became one of the dominant forms of art after the second world war. The exhibition examines the many phases of his development to the height of his success in the mid-1950s. The works on display are selected from the artist's own collection, and are lent by the Fondation Hans Hartung et Anna-Eva Bergman at Antibes; to Oct 20

THEATRE
The Pit Tel: 44-171-6388891
● The Phoenician Women: by Euripides. Directed by Katie Mitchell and performed by the Royal Shakespeare Company; 7.15pm; Aug 12, 13, 16, 17 (also 2pm)

■ LOS ANGELES-MALIBU

EXHIBITION
The J. Paul Getty Museum Tel: 1-310-459-7611
● 19th Century French Drawings: exhibition of 25 drawings by 19th century French masters from the museum's collection, with examples from Neo-Classicism through Post-Impressionism, including works by Cézanne, Delacroix, Gericault, Ingres, Millet, Manet and Degas; to Aug 25

■ MADRID

EXHIBITION
Museo Nacional Centro de Arte Reina Sofia Tel: 34-1-4675062
● Oscar Dominguez. Antológica (1926-1957): retrospective exhibition devoted to the Spanish Surrealist painter and sculptor Oscar Dominguez. The display features approximately 170 works from all stages of his artistic career, including paintings, works on paper, sculptures and other objects. The works on display come from European and American private and museum collections; to Sep 16

■ NEW YORK

CONCERT
Avery Fisher Hall Tel: 1-212-875-5030
● Mostly Mozart Festival Orchestra: with conductor Gerard Schwarz, flautist James Galway and harpist Naoko Yoshino perform works by J.S. Bach, Mercadante, Mozart and Handel. Part of the Mostly Mozart Festival; 8pm; Aug 13

EXHIBITION
The Pierpont Morgan Library Tel: 1-212-685-0008
● Being William Morris: A Centenary Exhibition: exhibition seeking to show a picture of William Morris in his various manifestations and careers: poet, novelist, illustrator and collector, among others. The display includes a widely diverse group of objects, ranging from books and bindings to wallpaper and fabrics; to Sep 1

■ PARIS

EXHIBITION
Centre Georges Pompidou Tel: 33-1-44 78 12 33
● L'informe: exhibition focusing on the history of Modernism. The display includes works by Pollock, Duchamp, Fontana, Smithson, Warhol, Hesse, Dubuffet, Rauschenberg and others; to Aug 26
Musée dArt Moderne de la Ville de Paris Tel: 33-1 53 67 40 00
● Claude Lévêque – My Way: exhibition featuring work by the French artist Claude Lévêque; to Sep 22

■ SALZBURG

CONCERT
Grosses Festspielhaus Tel: 43-662-80450
● Hermann Prey: accompanied by pianist Michael Endres. The baritone performs ballads by Loewe. Part of the Salzburger Festspiele; 11am; Aug 15

■ SYDNEY

EXHIBITION
Art Gallery of New South Wales Tel: 61-2-2251700
● Kandinsky and the Russian Avant Garde: exhibition charting the rise and fall of modernism in Russia. The display includes works by artists such as Kandinsky, Malevich, Rodchenko, Goncharova and Popova. Many of the works have rarely been seen before, since they are drawn from museums throughout the former Soviet Union, from Omsk, Astrakhan, Nizhny Novogorods and beyond. In many cases they were hidden from view because Russia's adventure with modern art was despised and banned by later Soviet idealogues; to Aug 18

■ WASHINGTON

EXHIBITION
Arthur M. Sackler Gallery Tel: 1-202-357-2700
● Preserving Ancient Statues from Jordan: eight examples of what may be the oldest human sculpture in the Near East, recovered from an ongoing excavation in Jordan, are featured in this exhibition highlighting conservation and study of archaeological material. Photographs document the journey of these ancient plaster statues dating from the 7th millennium BC from their excavation 10 years ago through the conservation and treatment process; to Apr 6

WORLD SERVICE
BBC for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV
(Central European Time)

MONDAY TO FRIDAY

NBC/Super Channel:

07.00
FT Business Morning

10.00
European Money Wheel
Nonstop live coverage until 15.00 of European business and the financial markets

17.30
Financial Times Business Tonight

CNBC:

08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

Michael Prowse · America

Victory either way

With Jack Kemp on the ticket, the Republicans can woo a public already in decidedly conservative mood

Mr Bob Dole's choice of Jack Kemp as a running mate is by far the best decision in his lacklustre campaign. Mr Kemp, a former congressman and cabinet official in the Bush administration, is a hero to many American conservatives because he is willing to argue passionately for free markets and individual freedom. He must be the first vice-presidential candidate who likes to quote from the works of F.A. Hayek, the Austrian philosopher of liberty.

As the architect of the Reagan tax cuts of the early 1980s he will appeal to elements in the Republican party long turned off by Mr Dole's caution and austerity. He will help unify and energise a party that only last week seemed fractious and dispirited. Yet as a former quarterback for the Buffalo Bills, and as a politician who evidently cares deeply about the problems in American inner cities, he will also garner support from minorities and other natural Democratic voters.

As the Republican convention opens in San Diego, the scene is thus set for a much more competitive presidential race than previously seemed possible. Mr Dole, with the articulate Mr Kemp at his side, should benefit from what can only be described as the natural conservatism of the US electorate.

The events of the past two years confirm that the US is in a more conservative mood today than in 1992, or even in 1988 when George Bush won the White House. And the reviled Speaker of the House, Newt Gingrich, deserves much of the credit for the ascendancy of conservative ideas, even if his role as a lightning rod left him personally damaged.

The somersaults Mr Clinton has performed to regain popularity only underline the conservative tilt in public opinion. In his first year in office he raised taxes substantially and proposed a government takeover of healthcare – one seventh of the economy. Immediately after the Republicans' congressional victory in 1994 he switched to favouring tax cuts and smaller government.

In this year's state of the union address he sought voter approval by solemnly declaring "the era of big government is over" – a line that could have come straight out of the Gingrich contract. In today's political climate a presidential candidate dare not sound like a traditional Democrat and hope to be elected.

Mr Clinton's posture on welfare is perhaps the most striking evidence of changing public opinions. A decade ago, President Ronald Reagan would not have dreamed of cancelling a federal entitlement dating from Franklin Roosevelt's "New Deal" of the 1930s, let alone imposing explicit time limits on benefits.

Such ideas were beyond the pale. Yet after some soul searching Mr Clinton agreed to sign the legislation – despite the opposition of senior Democrats in Congress and leftwing pressure groups – because such measures now command broad public support. In a New York Times/CBS poll last week, only 6 per cent of respondents opposed Mr Clinton's stance on welfare.

Many thoughtful Democrats backed the Republican bill. The public, wrote Mr Will Marshall, president of the Progressive Policy Institute, a centrist think tank, regards welfare as "a trap that smothers initiative, instills passivity and dependence, and isolates the poor in a subsistence economy". What people want – and what the new legislation offered – is a "system organised around the moral and practical imperative of work".

In a passionate editorial the Democratic-leaning New Republic magazine urged Mr Clinton to sign the bill because it "will, finally, start the process by which America's underclass problem can be solved".

Nor is acceptance of conservative solutions in welfare an isolated phenomenon. The Gingrich Congress also passed ambitious legislation to deregulate the telecommunications market and to begin what will be a long battle to eliminate farm subsidies. Although defeated in a bid to curb the growth of Medicare, the public health care plan, it cut domestic discretionary spending for the first time in 27 years and forced Democrats to accept, at least in principle, the merits of balanced budgets. It passed legislation to put a V-chip in television sets, allowing parents to block offensive material.

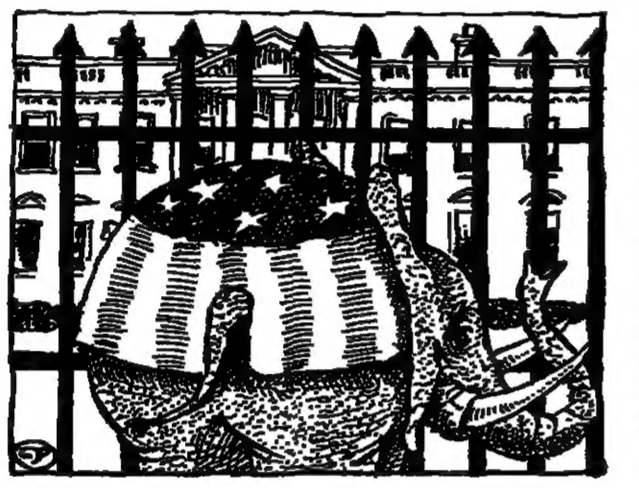
More speculative evidence of a conservative mindset includes intense frustration with public (government-run) schools. States are now beginning to experiment with voucher schemes allowing parents to spend tax-dollars in private and religious schools.

There are even signs of disillusionment with Social Security, the hallowed public pension programme. Last week the Cato Institute, a libertarian think tank, released a poll suggesting that two-thirds of voters would rather invest their contributions in private savings plans, such as unit trusts, than rely on the government scheme.

Mr Clinton's lead in the polls should not, therefore, be seen as evidence of an anti-conservative backlash. On the contrary, he is popular only because he has moved to the right. In past decades, Republicans helped advance liberal (leftwing) causes.

President Richard Nixon, for example, imposed price and wage controls, created the Environmental Protection Agency and proposed a guaranteed minimum income for all Americans. He did so because these ideas were then popular. It is no more ironic that Mr Clinton has had to embrace rightwing causes.

Conservatives should thus relax. The outlook is quite bright whoever wins this November. If Mr Kemp helps propel Mr Dole to victory, the US will tilt sharply in a free market direction. But if Mr Clinton wins, he will be constrained by the climate of public opinion to adopt conservative policies. It is heads Republicans win, tails the Democrats lose.



LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'), e.mail: letters.editor@ft.com Published letters are also available on the FT web site, http://www.FT.com Translation may be available for letters written in the main international languages.

Benefits of competitive devaluation a myth

From Mr Matthew Richardson.

Sir, I am writing with regard to your article "Belgium prepares its system for euros" (August 9) and in particular to the ludicrous suggestion that member states that do not join the proposed single currency will face sanctions if they "devalue their currency to gain competitive advantage".

I find it disturbing that Mr Philippe Maystadt, the Belgian finance minister, still believes in the myth of competitive devaluation. Past experience in the UK and other European countries shows that the policy has created anything but an advantage for those governments that have pursued it. In each and every case, the benefit of short-term export growth has been rapidly extinguished by a rise in inflation and a general deterioration in economic confidence.

The sustained economic recovery enjoyed by Italy and the UK since their departure from the ERM in 1992 reflects the fundamental flaws in Emu and not the supposed benefits of comparative devaluation.

Mr Maystadt fails to understand that the devaluation of sterling and the lira was forced upon the UK and Italy by currency markets and was not the result of government policy. In short, that devaluation was very different from its predecessors.

If Mr Maystadt and his supporters wish to go ahead and join the proposed single currency I wish them luck but would ask him not to use the myth of competitive devaluation to justify threats against those states that decide to opt out.

I suspect that the real reason for these empty threats is the realisation that there is no benefit to opting out of the single currency but significant economic disadvantages to those nations that decide to participate.

Matthew Richardson,
UC Court,
35 Stanley Market Road,
Stanley,
Hong Kong

Privatisations offer rich pickings

From Mr Andrew Couch.

Sir, We note that the current controversy surrounding the Kleinwort Benson European Privatisation Trust ("Investors attack Kepit directors' lacklustre record", August 8) has led some commentators to throw doubt on the logic of investing in the privatisation sector, especially in Europe. We would like to point out that investors in the Kleinwort Trust owe much of their losses to a widening of the discount, resulting from the closed end structure. True, the asset performance has also been poor but part of this can be explained by the overly restrictive investment policy – of picking stocks among companies privatised in the last five years. This was a mistake given the huge £500m of assets to be invested after the launch.

European privatisation stock performance has been clouded by a few large, headline issues in the weak market conditions of 1994 and 1995, principally in France and Italy (UAP and BCI being the most spectacular flops). These failed issues were the result of tight pricing by the respective governments but there is proof that these lessons have now been learnt. AGF (French insurer) was priced at a 30 per cent discount to net asset value and the innovative Italian convertible bond issue for INA (insurance) was five times oversubscribed.

There are potential rich pickings in the European privatisation universe and the timing for investment is opportune. The current low growth, low inflation environment is forcing a strong restructuring trend among European companies. Privatisation stocks, with the largest potential productivity gains, stand to benefit the most. In addition, privatisation outside Europe, in Asia-Pacific, Latin America and eastern Europe should continue to produce strong gains. Indeed, the fact that the privatisation sector is currently out of favour makes us more optimistic.

Andrew Couch,
Fund Manager of Guinness Flight Global Privatisation Trust,
Lighterman's Court,
5 Gainsford Street,
London SE1 2NE, UK

Unjustifiable comparison

From Mr Nicholas Crosby.

Sir, It is regrettable that Edward Mortimer ("A mild patriotism", August 7) has succumbed to the fashionable yet malign comparison between the failed federations of the Communist bloc and the successful European Union. The Soviet, Czech and Yugoslav federations were autocracies, with closed economies, founded upon the rule of force. The European Union is made up of democracies, with open economies, founded upon the rule of law. Comparing the two systems is as fatuous as it is offensive.

Nicholas Crosby,
Flat B,
15 Avonmore Road,
London W14 8RP, UK

European Commission rule puts more beers on tap

From Dr Peter Dixon.

Sir, The action by the European Commission on guest beers would not sink small UK breweries ("Small brewers hit back at EU beer rule", August 7).

It follows complaints that present rules discriminate against guest beers which are not cask conditioned, a process used almost exclusively by UK breweries.

The Commission has suggested new rules that would allow guest beers in pubs to continue to be reserved for small breweries which produce less than a certain quantity of beer per year or with all annual turnover below a certain threshold.

Pubs would have more choice about which guest beers they stocked and there would be no question of any beer being imposed on them.

The Commission has previously acted to open up continental beer markets, notably Germany and Greece, to UK beers, where the authorities refused to allow beer to be sold if it was not made according to a traditional recipe. It is hardly surprising therefore that the Commission has acted against UK rules that restrict imports from other EU countries.

Peter Dixon,
head of political affairs,
The European Commission,
8 Storey's Gate,
London SW1P 3AT,
UK

Disputes for the 1990s

Tony Jackson on UK public sector strikes and the search for private finance

For those of a nervous disposition, last week's strikes by the UK Post Office and the London Underground might suggest a return to the bad days of the late 1970s. Taken with the likely return of a Labour government, the spectre is all too familiar: chaos in the capital, unburied corpses and rubbish in the streets.

Calmer reflection suggests nothing of the kind. Transport and postal strikes catch the nation's attention; but across the economy as a whole, the reality is that strike figures are still the lowest on record.

Critics might pose a different question. Recent strike threats in the private sector, such as that by British Airways pilots, have been quietly averted. Why do public sector managers seem so much less adroit in handling disputes?

The answer comes in two parts. First, today's public sector managers often come from the private sector. The Post Office chairman is an ex-director of personnel at Unilever. The head of London Underground was formerly with British Airways. His boss, the chairman of London Transport, comes from Harvard Business School, McKinsey and P&O.

The second part of the answer goes to the heart of what the two disputes are about. In both cases, management is trying to change the organisation's culture: to make it less rigid and more capable of change. The ultimate goal, in both cases, is to make the workers think and act more like their private sector counterparts.

Thus, the Post Office is trying to move away from its old hierarchical culture towards a system of teamwork. London Underground is trying to reform a structure in which, for instance, holiday rotas are still organised by the workforce rather than the management.

The ultimate driving force in both cases is the same: the need to attract private sector finance. At the extreme, this means privatisation: explicitly advocated by Post Office management, and unlikely to be opposed by London Transport.

It might seem an odd time for managers to be thinking in those terms. Even in the unlikely event of a Tory election victory, privatising the Post Office, while still a Tory objective, would prove difficult and contentious. As for London Underground, privatisation has apparently been dropped from the Tory manifesto as being too politically sensitive.

Brendan Corr

PO lock-up: managements want to see structural reform

For a Labour government, of course, privatisation – under that title, at any rate – would be anathema. But the main issue would remain. The Post Office and London Underground need to invest heavily if they are to carry on doing their jobs. The more they can present themselves in private sector guise, the easier it will be to attract private finance.

In the Post Office's case, this might seem perverse. Investment is certainly needed to keep pace with the rapid development of electronic media and digital information. But in a private sector context, the Post Office would have no trouble at all in raising the money.

Its management, after all, would have a good story to tell: a consistent record of profit, strong cash flow and a remarkable level of customer satisfaction. At present, the Post Office is not allowed to borrow, since that would count as government debt. But as a private company, its balance sheet would allow it to borrow well over £1bn without strain.

The case of London Underground is less clear cut. If its accounts were drawn up in private sector fashion, its operating loss might be relatively small. But by comparison with the Post Office, it is hugely capital intensive. This year, it will swallow close to £1bn of taxpayers' money, of which more than half will be spent on the new extension to the Jubilee Line.

Attempts to help out with private finance have so far proved tough going. The £2bn-plus London CrossRail project, providing an underground link between the capital's railway termini, is supposed to contain an element of private funding. But the main burden will fall upon the taxpayer. Unsurprisingly, therefore, the project has been postponed to the next century.

The government's Private Finance Initiative is supposed to help here, but the results so far are not encouraging. The Northern Line of the Underground is being supplied with some £800m worth of new trains through a leasing arrangement with the suppliers, GEC Alsthom. But even that was opposed by the Treasury as being in breach of its rules, as was a plan to lease out some of the automatic barriers at Underground stations.

It would be perhaps unfair to single out the Treasury as the culprit. The history of nationalised industries in the UK has left its scars. In their heyday, investments by nationalised companies too often proved disastrous. An important reason was that since spending was ultimately backed by government, managers lacked the guidance of the market on the balance between risk and opportunity.

Given the context, today's public sector managers might well feel occasionally helpless. Their ownership structure is unsuited to the job they have to do. Their workers, meanwhile, have no incentive to speed the transition to a private sector model, since they have every evidence that it means upheaval and insecurity.

There is a central irony to all this. The City and the financial markets are criticised for being short-termist. In the closing years of the century, the reality is just the other way round.

Governments – not only in the UK – are increasingly weighed down by the fiscal burden of pensions and unemployment. Long-term capital projects are no longer to be thought of: especially by governments which know that proposing taxes to pay for them would spell doom at the polls.

The world is therefore reverting to a 19th century model, whereby long-term private savings are channelled by the financial institutions into long-term investments. The problem is not one of a shortage of funds. The question is rather how public sector managers, squeezed between hostile owners and resentful employees, can gain access to the money.

COMMENT & ANALYSIS

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
Monday August 12 1996

Dole's grand old mess

Bob Dole's choice of Jack Kemp as his vice-presidential running mate has breathed new hope into a seemingly hopeless campaign. Delegates arriving in San Diego this weekend for the Republican party convention are already talking of historic turning points, and a shock victory at the polls.

Mr Kemp is a shrewd selection. But relief that Mr Dole has finally pulled something out of the hat should not distract from the underlying weaknesses of his campaign.

Eighteen months ago few would have guessed that the choice of a running mate could assume such significance. But the Republicans and Mr Dole were running high in the polls against President Bill Clinton. Retaking the White House seemed only a matter of time.

It has not been entirely downhill since then. Republican ideas are still the ones to beat in mainstream political debate in a way they were not in 1992. But the Grand Old Party itself is landed with a platform that is a mess of contradictions, and a candidate whose languishing campaign embodies them.

The questions Mr Dole and his party need to ask this week are, first, how did things go so wrong? And second, can simply putting Mr Kemp's name on the ticket revive their fortunes?

The answer to the first question is a mixture of bad luck and poor judgment. The bad luck, for Mr Dole, was to be running at a time when it was even harder than usual to paper over the differences between the party's many warring factions.

Bad judgment

The 1994 Contract with America had contained something for everyone. As a result, each group thought that it had "won" the November congressional elections and was therefore in no mood to moderate its position on issues such as abortion, immigration or the balanced budget.

The bad judgment was for Mr Dole – and his supporters – to believe that he was the man for these tough circumstances. There may not be any senior Republicans around today who could bridge the party's divides as effectively as Ronald Reagan. But as a poor campaigner, and known moderate and compromiser, Mr Dole may have been particularly ill-suited to the job.

After years in the Senate, his instinct has been to try to appease everyone. The upshot is that his campaign, as pundits are fond of pointing out, has failed to express a coherent message. It has been, rather, a mess of individual positions, most of them far from the centre-right ground on which Mr Clinton has now ensured that the election will be fought.

Tempt voters

Embracing the supply-side agenda, in the economic plan unveiled last week and in the selection of Mr Kemp was, arguably, the only option Mr Dole had left. The ex-football star has other political attractions. But the main point of his selection must be to convince the doubters that Mr Dole's last-minute conversion to the supply-side cause is genuine.

Promising to deliver an improbable combination of lower taxes, a balanced budget and faster growth may be the only way to unite the Republicans. Whether, in the present climate, it can also tempt voters away from Mr Clinton is another matter.

Running mates do not win presidential elections. Presidents can lose them: a big mistake, or scandal, from Mr Clinton could yet turn things around for Mr Dole. Either is possible. But the Republicans would be unwise to bet on such a miracle from a seasoned campaigner.

The real trouble is that the president has co-opted the large chunks of the Republican agenda which voters now support, leaving Mr Dole looking like an insincere radical.

The GOP's thoughts look set to dominate US politics over the next few years. But, on present reckoning, it may be that the only way the Republicans can get their ideas into the White House is through a Democratic candidate.

Regulating Nasdaq

America's Nasdaq stock market is justifiably proud of its record as a lightly regulated forum for young, fast-growing businesses, many of them in high technology, to raise equity capital. Those it has helped flourish include the computer industry's Intel and Microsoft, and MCI, the phone group. Much of the US stock market boom of the past 18 months has been driven by high-tech stocks, focusing unprecedented investor attention on the daily movements of the Nasdaq composite index.

But an ugly side to Nasdaq's operations was highlighted last week by the Securities and Exchange Commission. It accused the National Association of Securities Dealers, which runs the market, of failing to enforce its own rules and US securities laws adequately. The spreads between the prices at which dealers were prepared to buy and sell shares were sometimes "not the result of natural economic forces" but of dealer co-operation, including harassment of any traders who stepped out of line. Other practices that drew its fire included late reporting of trades, sometimes in a co-ordinated attempt to mislead investors.

Reform plan

The litany of wrongdoing accompanied an SEC announcement that it had reached a settlement of its complaint with the NASD, which will require the association to carry out a 14-point reform plan over the next two years. The actions include maintaining at least 50 per cent independent membership of its board; giving greater powers to its regulatory staff; improving audit trails and the reliability of trade reporting; and outlawing price quote co-ordination.

The SEC move is to be welcomed. The actions of which NASD members stand accused (the association neither admits nor denies the findings) are reprehensible, both for short-changing investors and for undermining the transparency and efficiency of the market. The affair also raises fresh questions about the value to investors of electronic quote-driven systems, such as Nasdaq and London's Seaq, compared with new computerised order matching systems.

Court order

But neither party comes out of this affair with distinction. It does not say much for the SEC's investigatory zeal that the inquiry into Nasdaq appears to have been prompted in large part by an academic paper two years ago claiming that dealers maintained artificially large spreads. That spurred not only the SEC but also a second investigation by the justice department and a third by the NASD itself, in the form of the Rudman panel. The justice department settled its case with the NASD last month, with dealers promising to improve compliance procedures under a court order. The department has set up a hotline to receive investors' complaints about the market. The Rudman panel has also prompted substantial operational changes. In other words, significant parts of the SEC settlement, which has been slow in coming, are already being implemented.

The cost of full compliance with the SEC's demands is put at $100m, which will presumably be met from the pockets of NASD member firms. It will be money well spent if it reassures investors and companies of the quality and probity of the market. So far, companies that have grown up with Nasdaq have shown no great inclination to move to the more prestigious New York Stock Exchange, though there is a small annual drift. Nor are investors apparently shunning a market where some of the most exciting share price action is to be found.

But continued evidence of lax discipline could eventually drive customers away and undermine Nasdaq's boast that it is the stock market for the "next century". Having passed its 21st birthday, it is time Nasdaq put aside the wildness of adolescence and demonstrated greater maturity.

Tigers pause for breath

Adverse currency movements and faltering demand for electrical goods are upsetting the region's prospects, says **Peter Montagnon**

To Mr William Overholt, regional strategist for Bankers Trust in Hong Kong, this year brings uncanny echoes of 1985, the one occasion since the second world war when the territory suffered an actual decline in economic output.

Now as then, he says, the economies of Asia are depressed by poor export performance as a result of the strength of the US dollar, to which most regional currencies are effectively linked.

Admittedly things are not quite as bad as 1985. Paltry though it was, Hong Kong still managed to notch up positive growth of 3.1 per cent in the first quarter of this year, but the happy ending may take longer to materialise than it did 10 years ago. The dollar's decline after the Plaza currency agreement of 1985 brought dramatic results: Hong Kong's economy recovered to grow by a sparkling 13 per cent in 1986.

With no such rescue in sight this year, a combination of adverse currency movements and weak demand in the industrialised world, particularly for electronic goods, continues to upset Asia's export prospects and, hence, economic growth. That in turn is sparking fresh debate on whether the region's economic miracle can be sustained.

Steep falls of about a percentage point, or in some cases even more, are expected in the growth rates of a long list of countries, including China, Thailand, Malaysia, South Korea and Singapore.

Across the region, the strains are starting to show. One sign of trouble was the recent attack on the baht which forced the Bank of Thailand to spend well over $1bn defending its currency against speculative selling in the wake of a bleak economic forecast from the bank itself.

The bank predicted Thailand's growth would reach 7.8 per cent this year instead of the 8.3 per cent forecast earlier. Exports would rise by 10.2 per cent, it said, compared with the original forecast of 17.4 per cent and an increase of 23.6 per cent in 1995.

Dr Mahathir Mohammad, the Malaysian prime minister, warned this month of possible import controls if a voluntary restraint scheme is not successful in reducing the country's large balance of payments deficit. Last month Grundig (Malaysia), part of the Philips group, said it was closing its plant in Penang amid complaints by executives there of exploding costs.

In South Korea, where exports fell in July for the first time in 42 months, public service television is lambasting viewers who drink imported whisky as part of a campaign against luxury imports.

Chinese manufacturers cite delays in VAT rebates and last year's credit squeeze for the 8.2 per cent drop in their exports in the first half of this year.

It is tempting to discern permanent change in such a catalogue of woe. Yet most economists argue that only a small part of the trouble is structural. The largest culprit, they say, is the currency market where the dollar has risen by 35 per cent against the yen since its trough last year.

For South Korea, whose exports of cars and finished electronics compete head on with those of Japan, this has been a particular blow. Japanese companies have started cutting their dollar prices again, now the exchange rate movement has allowed them to rebuild their margins, says Mr David Semple, of Peregrine Securities, in Hong Kong.

For other countries, like China, the dollar's rise means a real appreciation in their own currency. Over the past 32 months the Chinese yuan has moved to 8.3 to the dollar from 8.7 but China has had much higher inflation than the US, says Mr Overholt. Mr Semple reckons the yuan has appreciated by 13 per cent in real terms over the past year.

Experience shows that a rise in the real exchange rate feeds through quickly to exports, adds Mr Ng Bok Eng, regional economist at Deutsche Morgan Grenfell in Singapore.

For Singapore the correlation is quite clear: a 1 per cent rise in the exchange rate means a 1.7 per cent fall in exports, he says. Among south-east Asian countries, Thailand and the Philippines have seen the fastest real rise in their exchange rates recently.

Thailand's resulting troubles are well documented, though the Philippines has bucked the general trend with an underlying rise in manufactured exports as more foreign companies set up production plants there.

But not all economists agree that the currency movements are most to blame. Productivity gains should offset much of the real appreciation, says Mr Neil Saker, of Crosby Securities in Singapore.

Labour productivity has failed to keep up with wage costs, especially in Malaysia where wages rose three times faster than productivity last year. But Mr Saker reckons that overall south-east Asian productivity continues to rise. Otherwise multinationals would have lost interest in investing in the region.

Like other economists, he says weak demand in the industrial world has been an important factor in curbing Asian export growth. Import growth in the G7 group of leading industrial countries contracted to 2 per cent in March from 19 per cent in the middle of last year, adds Mr Ng.

Weakness of the electronics market due to the collapse in semiconductor prices and the slow personal computer market in Europe is an aggravating factor. Electronics account for half Singapore's exports, more than half those of Malaysia and about 30 per cent of those of Thailand.

Eventually the electronics market should recover. Mr Ng reckons the third quarter will be its worst. Mr Overholt notes that the US economy is growing quite fast and Japan's economy is recovering. That should boost demand for Asian exports; the first signs of an improvement are already appearing in both Malaysia and Thailand, he says.

But the exchange rate factor may be harder to deal with, even though the dollar has now stabilised against the yen.

With the notable exception of China with its large reserves and current account surplus, most Asian countries cannot easily afford the uncertainty which would flow from allowing their currencies to depreciate.

"If you change the currency regime, it makes the foreign exchange markets nervous," says Mr Semple of Peregrine. Indonesia, Thailand and Malaysia all have large balance of payments deficits which must be financed by capital inflows. "A large part of these inflows is attracted by relative yield," he adds. "If global interest rates stay the same and the exchange risk premium goes up, local interest rates have to rise."

As for structural problems, export weakness has again focused attention on whether Malaysia and Thailand have the capacity to move into more sophisticated higher-value manufacturing.

Hong Kong used to make its money from blue jeans. Now it makes it from financial derivatives, Mr Overholt says. He believes Thailand is already beginning to follow suit. But even Thai policy-watchers worry how far their country, which has no long tradition of compulsory secondary education, can travel down this road.

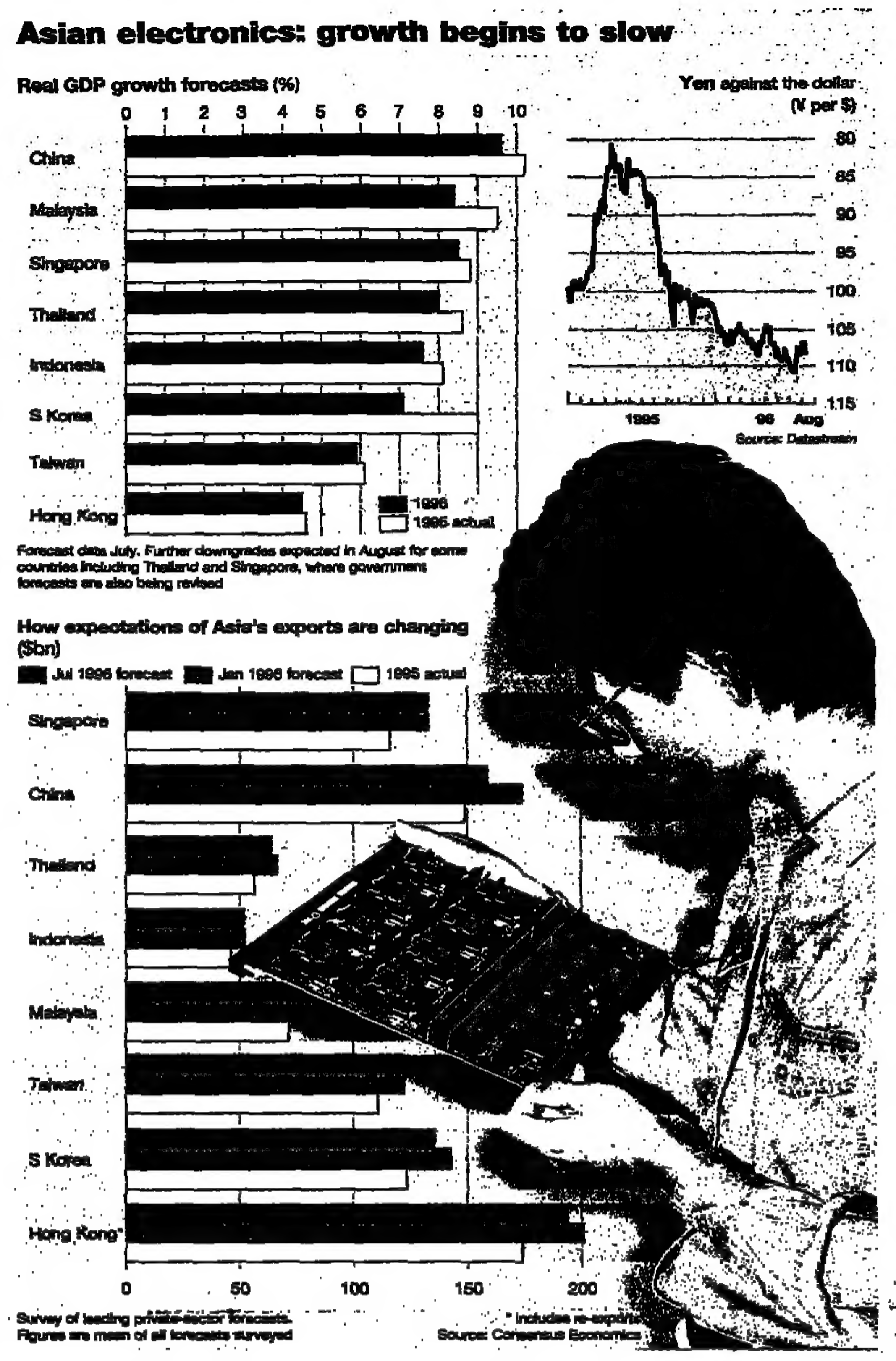
In a relatively encouraging recent analysis Salomon Brothers said Thailand did appear to be managing to move up the value-added chain. Traditional exports, like textiles, have been shrinking while those of computer parts and electronics have been on a long-term rising trend, the US investment bank said.

"Thailand and Malaysia are not quite at the big end of technology, and they don't have the skilled labour. Nor do they have the cost advantage Indonesia has," says Mr Saker. "They're at an in-between stage which will be difficult to manage. They should be more aggressive in opening up their labour markets to foreigners. That creates political problems, but at the end of the day I don't think they've got a choice."

A more important lesson from this year's experience may be a broader one: for all the much-vaunted growth in regional trade, Asian manufacturers are still ultimately dependent on developed country markets.

Suggestions that Asia is on the verge of acquiring economic momentum of its own which would insulate it from the cycle elsewhere look premature. Indeed some argue that the structure of regional trade, which is heavily orientated towards exchanges of industrial inputs, creates a gearing effect which only makes life more painful when global demand falters.

"Purchasing power is rising in Asia, but it's nowhere near the levels of the west. The west is the ultimate buyer of what Asia produces," says Mr Ng. Sadly for the region's factories, that means success still depends on the production of goods that meet the whims of western buyers at prices they are prepared to pay.



· OBSERVER ·

Corridors of silence

■ The moral of "more haste, less speed" notwithstanding, Australia's new federal government's silence over key appointments is becoming deafening.

For a start, there is the question of who will succeed Bernie Fraser as governor of the Reserve Bank of Australia, the central monetary authority. Fraser is due to step down on September 17, at the end of his seven-year term.

To date, the most serious running has been made by Ian MacFarlane, one of the two existing deputy governors, although some suspect that the government will want to go outside the bank itself. But no white smoke signals have yet been spotted in Canberra.

Then there is the question of whether Andrew Peacock will become Australia's next ambassador to Washington. Peacock fought John Howard, Australia's prime minister, for leadership of the Liberal party throughout much of the 1980s. But he finally bowed out of federal politics two years ago, and has since exuded graciousness over his former adversary's success. This diplomatic prowess is said to have earned him the job.

Finally, there is the identity of the person chosen to chair the inquiry into media ownership, perhaps the most delicate task in Australia, since it may determine who ends up controlling John Fairfax, the country's leading newspaper publisher.

In this case, according to Senator Richard Alston, communications minister, a choice has at least been made. Just when the world might be told remains a mystery.

Courting success?

■ What does it say about the London restaurant scene when courts of law get pressed into service as eateries?

Jeremy Mogford, who has made a success of feeding out-of-towners for 23 years, has chosen this year to take the plunge in the capital. After a trial outlet in Chelsea and a smallish place in Mayfair, he is going for his third and biggest venture next month, a brasserie on the edge of Covent Garden, in what was until recently the home of Westminster county court.

The Browns chain – offering good, essentially British grub at a decent price – makes a point of eschewing the trendy. With "only" 340 seats in the law courts, the new outlet cannot be considered at the cutting edge of the 1990s mega-restaurant.

Nor is it "themed", even if Mogford hopes to create a frisson with the three faithfully restored courtrooms that will be hired out for private gatherings.

A topiary enthusiast who is still learning about Londoners' eating habits, Mogford will no doubt be hoping he has a receipe for success in a highly competitive market.

Striking gold

■ Many Olympic gold medal boxers turn professional after their successes at the Games. But Somluck Kamsing, the first Thai ever to bring home the gold, is proving even more fortunate. In the best Thai tradition of ensuring fame and money go together, the self-described "poor country boy" is all of a sudden swimming in a sea of cash.

The Sports Authority of Thailand and the Olympic Committee of Thailand are each pitching in Bt3m ($120,000), plus a monthly stipend of Bt10,000 for the next 25 years.

Thai Rath newspaper and the Thai Amateur Boxing Association are both forking out over Bt10m, while a music company is giving him Bt5m in the hope he will record a few songs for them.

Not to be outdone, prime minister Banharn Silpa-archa, who makes just over Bt55,000 per month, has pledged "seven figures", and, with an unheard-of sense of urgency and unanimity, the Thai cabinet waived Somluck's tax bill.

Just so he doesn't drown in his new-found wealth, Somluck is expected to get two more awards: a promotion to lieutenant in the Thai navy and a PhD in physical education from a university in his home town of Khon Kaen.

Sin and click

■ So the Internet is not the solution to everything, after all. A Cologne-based outfit called the Lazarus Society has been marketing a handy little disc entitled Confession by Computer. Users can try to match up their particular misdemeanour with a list of 200 possible sins – and the black box will think up a suitable form of penance. An Our Father, or a Hail Mary, may issue forth from the machine (if you have the equipment) and you may be pointed in the direction of a priest to contact in cyberspace.

Germany's Roman Catholic Church does not think much of the notion of Jesus going online. "You cannot have sins forgiven by the push of a button," the German Conference of Bishops reminded the flock.

Financial Times

50 years ago

Imports of Russian Platinum
It was learned in London yesterday that Russian platinum is being imported into Britain and sold again to United States speculators. London dealers concerned are reluctant to disclose the quantity involved or the price at which it was exported to America, but it is understood that only a limited amount has changed hands at up to $80 an ounce. The producers' price in America is still quoted at $67 to $70 per fine ounce, which is about on a parity with the London quotation of £17 per troy ounce.

The Chinese Market
Economic conditions in China present a disturbing picture. China, of course, was invaded, and partially occupied by the enemy, for longer than any other belligerent. Since the war ended the Manchurian affair has been a serious setback. Full allowance must be made for all these handicaps. But until China has settled her internal differences and learned efficiently to govern herself, there can be no real economic recovery. Meanwhile, it is hard to see how Britain can do more than she is doing now, by taking a passive but sympathetic interest in China's efforts to achieve unity. The U.S. will no doubt grant a loan to China.

FINANCIAL TIMES
Monday August 12 1996

Former Sumitomo trader profited while others slept

When Mr Yasuo Hamanaka, the former head of copper trading at Sumitomo Corporation, left the office in the evening and retired to the red velvet sofas of the Griffin, a luxury hostess club in Tokyo's *Ginza*, the copper market stayed on his mind. He would check London and New York price movements on a pocket monitor and use his mobile phone to place orders, writes Emiko Terazono from Tokyo.

Mr Hamanaka, blamed by Sumitomo for losses of $1.8bn, appeared yesterday for the first time since his dismissal in June, when copper prices fell almost 30 per cent in a few weeks. Dressed in blue trousers and a polo shirt, an apparently relaxed Mr Hamanaka met a Reuters journalist but would not comment on the copper case. "I am fine," was his most revealing statement.


Yasuo Hamanaka, blamed by Sumitomo for losses of $1.8bn, was said to be devoted to his role as the company's chief trader

Sumitomo still says "Mr Copper" acted alone, but brokers who handled trades for the company insist that he had board approval. Fellow traders said he routinely attempted to control the copper market to make profits for Sumitomo and that he was devoted to his role *as the company's chief trader*.

He took that self-image with him into the clubs of Tokyo. The Griffin, launched at the height of Japan's financial excesses in 1989, was a favourite haunt. Aside from his orders of Scotch which cost around Y150,000 ($1,400) a bottle, Mr Hamanaka's numerous phone calls aroused the curiosity of the Griffin's hostesses who sat beside him, pouring the drinks.

Mr Hamanaka went out most nights to two or three bars, taking along brokers who courted him for his orders or a younger crowd of traders and brokers who feted him. Instead of having his bills sent to Sumitomo, he paid many of the bar bills in cash. His wallet bulged with cash and he complained that he was unable to fold it properly.

After his expeditions to hostess bars, he would return to *his office to do the paperwork* on the trades done on his mobile phone. He liked to trade when volumes were thin – pre-market trading in London or immediately following the London market's close – when the size of his orders would easily move prices.

His trading at night and visiting clients during the day gave contacts the impression that Mr Hamanaka got little sleep. Although he took catnaps during the day in taxis, he bragged about his scant sleeping hours.

"I don't need to book hotels when I go on business trips because I would go to a meeting in London, jump on the plane, and go to my next meeting in New York and spend the night in a bar," he once told a broker.

Mr Ashley Levett, a founder of Winchester Commodities, which handled many of Sumitomo's trades on the London Metal Exchange, recalled being entertained in Tokyo bars by Mr Hamanaka. "He was probably like Margaret Thatcher. He seemed to be able to get by without too much sleep."

Colleagues were concerned by his drinking and at some lunch meetings he drank watered-down whisky without eating. "This is all I need," Mr Hamanaka once told traders at lunch, pointing to his drink, leaving a plate of roast beef untouched.

Yet there was a nurturing side of Mr Hamanaka. He encouraged his two young colleagues in the copper division – known within Sumitomo as the "LME Operations" – to experiment with positions and trading techniques, and he gave them relatively large orders to handle.

Unlike senior managers at other Japanese trading houses, he would not roughly brush aside young brokers. "He always asked me if I was doing okay. Although he seemed distracted at least he treated people like human beings," said one broker.

Mr Hamanaka gave the impression that he was keen to assist the creation of new companies, including Global Metals and Minerals in the US and Winchester in the UK, which he often used for trades. While it was in his interest to cultivate small brokers to diversify his copper trades, he also seemed to like the idea of helping small independent companies.

His reluctance to leave the copper market was obvious when Sumitomo suggested promoting him to a senior post in its Indonesian operations which would not have a direct role in trading. "They want to get rid of me and make me retire," he lamented.

Diamond 'leaks' threaten De Beers deal with Russia

By Kenneth Gooding in London

The relationship between Russia and the diamond cartel organised by De Beers of South Africa is being jeopardised again by a big jump in the value of rough or uncut diamonds "leaking" to the market from Russia and bypassing De Beers's Central Selling Organisation.

The value of rough diamonds "leaking" out in this way is estimated by Diamond International, published by the CRU International consultancy, to have jumped from between $10m and $15m in March and April to $40m-$50m in June.

Mr Julian Ogilvie Thompson, De Beers's chairman, is certain to be closely questioned about the group's dealings with Russia when he meets analysts tomorrow to present the De Beers half-year results. Analysts expect bumper profits and are forecasting a 25-30 per cent rise from the attributable earnings of $398m reported for the first half of 1995, plus a healthy dividend increase.

Before the rise in unofficial Russian exports, the diamond market was fast regaining confidence. De Beers reported that its diamond sales had risen by 8.2 per cent in the first half to a record $2.748bn. In July, it announced a price increase averaging 3 per cent but much greater for larger rough diamonds.

Now there is increasing concern that De Beers and the Russians might not after all be able to agree a new contract. They signed a "memorandum of general principles" in February and said this would be expanded as soon as possible into a formal three-year contract with Almazy Rossii-Sakha, Russia's biggest diamond producer.

Some analysts suggest Russia might have had a change of mind, influenced partly by the decision of Argyle, the Australian producer, to quit the cartel in June. They also point out that, in his first post-election veto, President Boris Yeltsin sent back to the Russian parliament a bill that would have begun dismantling state control of the diamond sector. This will delay the signing of any contract with De Beers.

Mr De Kilalea, analyst at stockbrokers Fleming-Martin, suggests the source of new "leaks" might be Almazy Rossii itself. "If this is so, then the hole will, hopefully, be plugged in the near future. Of more concern are views that the "leakage" is more widespread and that Komdragmet, the Russian government precious metals and gem organisation, has also been selling directly to Antwerp. If this is true, it would imply a breakdown of the relationship between the CSO and Moscow."

De Beers said at the weekend that talks about a definitive contract with Russia had been delayed by the Russian elections and would be concluded "as soon as humanly possible". It added that the "leaks" were not as big as in 1994-95.

Turkey set to sign Iran gas accord

Continued from Page 1

historically poor relations with Syria "should be solved as soon as possible".

Syria disputes Turkey's rights to the waters of the Tigres and Euphrates while Ankara accuses it of supporting the PKK.

Turkey sent two senior cabinet ministers and a group of Turkish businessmen to Baghdad over the weekend to seek export deals with Iraq. The UN has partially lifted sanctions on Iraq, allowing it to sell $2bn-worth of oil every six months to buy food, medicine and humanitarian supplies.

Before the outbreak of the 1991 Gulf war, Iraq was one of Turkey's principal trade partners. Turkey has been pressing Washington and the UN to relax the embargo on Iraq to enable its exporters to resume the lucrative trade with Iraq.

Mr Erbakan said that if approved, Iraq would export 200,000 barrels a day to Turkey – half the country's oil needs.

THE LEX COLUMN

Oiling the wheels

Imagine a huge, low-growth industry scrabbling to improve returns. Imagine, too, that in many parts of this industry there are powerful economies of scale. It sounds an investment banker's dream: rich pickings for break-ups and mergers.

Well, it exists and is called the oil industry. Yet the western oil majors are still integrated baronies. They often sell assets and forge joint ventures, but mega-deals and break-ups are strikingly absent.

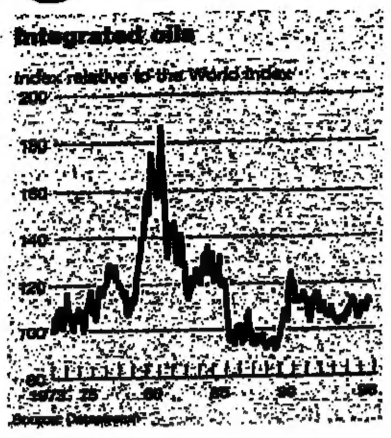
Take break-ups first. Certainly the old arguments for oil companies' "vertically-integrated" structures look tired. They get oil out of the ground, refine it and either sell it as petrol or turn it into petrochemicals. These activities have little in common: digging for oil is a completely different skill from running petrol stations.

Of course, there is the classic conglomerate defence – that a range of activities smoothes earnings. But on that basis, oil companies might as well run supermarkets. Similarly, the notion that producers need secure outlets for their product is flimsy. It once had merit, and still does in gas. But in oil, liquid markets now exist at each stage of the chain. No company can rely on selling at a higher price than a competitor using the spot market.

On the other hand, the case for break-ups is not, on its own, terribly compelling either. The main advantage would be greater *focus*, putting pressure on sleepy managers by depriving them of a wealthy parent. But against that must be weighed the loss of some synergies which do exist – for instance between refining and petrochemicals. And it is not as if big gains for shareholders are likely: none of the big companies is trading at much of a discount to break-up value.

Mergers, or at any rate more modest forms of "horizontal integration", look more promising. This is not a matter of chasing size; the real driver would be cost-cutting, and this is already biting. The mutual carve-up of Mobil and British Petroleum's European downstream businesses, for instance, is due to produce a thumping $400m-500m a year in cost savings.

So why not take this logic further, with a full mega-merger? Such a deal could stack up, as some think it might for Mobil and BP. Of course, mergers might not cut costs much "upstream" – in exploration and production – where the logic would be more about creating a better spread of assets. And there



could be real snags. One is that some conceivable mergers would hit problems with competition authorities. Another is that several parts of an integrated company's business might suit quite different partners. Nonetheless, given the weakness of the case for vertical integration, a perfectly viable solution exists in a situation like this: break a company up into several different bits and merge each with different partners.

For businesses willing to push such logic ahead aggressively, especially downstream and in chemicals, there are great prizes to be won. Doubtless, it will be a wrench, when it involves pulling out of businesses currently seen as core. But where *horizontal integration* conflicts with the now limp vertically integrated logic on which the companies were built, there is little doubt which has the more potential. The winners will be those most prepared to jettison the past.

BAT Industries

The $750,000 judgment against BAT Industries in the Grady Carter case will knock a significantly larger sum off its stock market value today, and rightly so. The tobacco industry sets enormous weight by the fact that it has only once been defeated in a US law suit, and that was overturned on appeal. The latest adverse court judgment will also be appealed, and with a reasonable chance of success, but it will create years of uncertainty. And if it loses, BAT could be buried under a mountain of similar cases.

This should tip the balance in favour of BAT demerging its financial services business. This division accounts for 40 per cent of group profits, but these are also tarred with the tobacco litigation discount.

The financial services business could comfortably attract a £9bn valuation, excluding debt. At Friday's closing price, the tobacco business would then be trading at a 50 per cent discount to the stock market's average price-earnings ratio. Even with its legal risks, this seems excessive for a highly cash-generative growth business.

RJR Nabisco has considered demerging its food operations for the same reasons, but it faces legal opposition from litigants claiming this would amount to "false conveyance" of its wherewithal to pay up. Since BAT's insurance businesses are already ring-fenced, it should face no such barrier. BAT recently created a separate holding company for financial services. Management should now consider the logical next step.

Inspec

When is a rights issue not a rights issue? The answer is, when it is an Inspec rights issue, and it miraculously becomes an option scheme as well. One would think that the processes of raising capital to fund acquisitions, and rewarding directors and employees for their performance, were totally distinct. But at Inspec they have become one and the same. Of its recently announced £101.5m rights issue, about 15 per cent of the entitlements are being taken up on behalf of employees; but payment is actually made by the company itself. The company only gets its cash back from the staff if performance targets are met and the share price makes it attractive. Otherwise, the company has to hope that it can pay off the loan for this scheme by selling the shares itself.

The rationale for this scheme is to encourage employee share ownership. This is an honourable aim, although in Inspec's case, it is diluted by the fact that directors account for the vast majority of staff shareholdings. But there are plenty of more efficient means to encourage employee participation; and staff who cannot afford to take up their rights can always sell them. As it is, Inspec's scheme creates two separate classes of shareholders; risk-free staff investors, and the outside investor who has to foot the bill if the shares fail to perform. Cynics might even interpret the scheme as a means of using financial engineering to enforce management's control – hardly in keeping with its lofty aims.

FT WEATHER GUIDE

Europe today

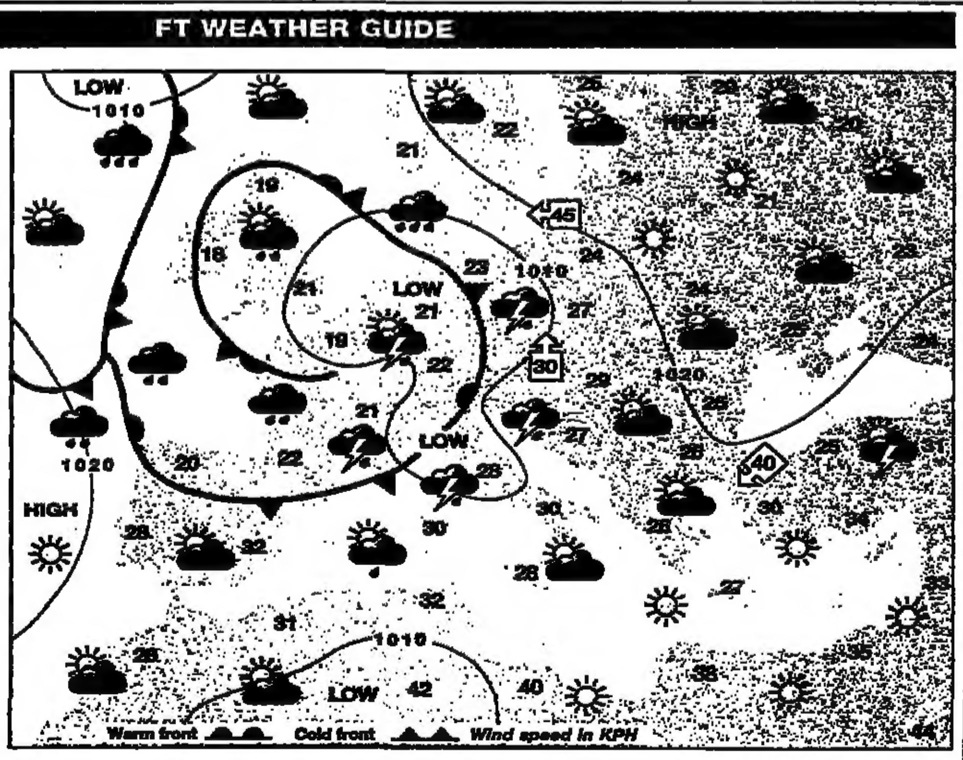
Unstable air masses will bring showers and local thunder over most of northern France and the Benelux. Elsewhere in France, there will be more sunshine with moderate temperatures.

Thunderstorms will develop over the Alps as cooler air moves eastwards. Northern Italy will have also have thunderstorms. Highest temperatures are expected over Spain and Turkey.

A high pressure area will bring fair conditions with plenty of sunshine to most of Scandinavia, but cloud and rain will move into Denmark from the south.

Five-day forecast

Unstable and rather cool conditions with showers and rain will move from north-western Europe into Germany, Poland and the Baltic States. A slight rise in temperatures is expected in the middle of the week over northern France and the Benelux. The British Isles will continue unsettled with lowering temperatures.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius										
		Belfast	shower 20	Casablanca	fair 28	Gibraltar	sun 29	Manchester	shower 21	Rome	shower 30
		Belgrade	fair 27	Chicago	fair 28	Glasgow	fair 21	Manila	shower 33	S. Frsco	sun 24
Abu Dhabi	sun 43	Berlin	rain 23	Cologne	shower 20	Hamburg	rain 22	Melbourne	fair 14	Seoul	fair 29
Accra	fair 26	Bermuda	thund 31	Dakar	fair 31	Helsinki	sun 24	Mexico City	thund 24	Singapore	shower 31
Algiers	fair 30	Bogota	cloudy 18	Dallas	fair 33	Hong Kong	shower 32	Miami	fair 33	Stockholm	clear 24
Amsterdam	shower 21	Bombay	rain 30	Delhi	cloudy 28	Honolulu	fair 32	Milan	shower 23	Strasbourg	rain 19
Athens	sun 30	Brussels	thund 19	Dubai	fair 42	Istanbul	sun 28	Montreal	fair 26	Sydney	sun 18
Atlanta	thund 30	Budapest	fair 27	Dublin	fair 20	Jakarta	shower 32	Moscow	fair 21	Tangier	sun 29
B. Aires	sun 18	C.hagen	fair 22	Dubrovnik	fair 27	Jersey	shower 18	Munich	rain 20	Tel Aviv	sun 33
B.ham	shower 21	Cairo	sun 35	Edinburgh	fair 21	Karachi	cloudy 33	Nairobi	fair 26	Tokyo	fair 29
Bangkok	cloudy 36	Cape Town	rain 15	Faro	sun 29	Kuwait	sun 46	Naples	fair 29	Toronto	fair 27
Barcelona	thund 26	Caracas	fair 32	Frankfurt	thund 22	L. Angeles	fair 25	Nassau	thund 33	Vancouver	fair 21
Beijing	cloudy 28	Cardiff	fair 21	Geneva	shower 19	Las Palmas	fair 27	New York	cloudy 27	Venice	fair 25
						Lima	cloudy 19	Nice	thund 27	Vienna	cloudy 25
						Lisbon	sun 26	Nicosia	sun 36	Warsaw	clear 25
						London	thund 22	Oslo	fair 22	Washington	cloudy 28
						Lux.bourg	thund 17	Paris	thund 19	Wellington	fair 11
						Lyon	thund 21	Perth	rain 17	Winnipeg	fair 29
						Madeira	fair 26	Prague	thund 23	Zurich	shower 17
						Madrid	sun 32	Rangoon	shower 31		
						Majorca	fair 29	Reykjavik	shower 13		
						Malta	sun 30	Rio	cloudy 24		